# *New Directions for Local Government Finance:*

## THE NEXT STEPS

## PART I

Province of
British Columbia

Ministry of Municipal Affairs, Recreation and Culture,
Hon. Lyall Hanson, Minister

EC
M837
.N48
1990
c.3

**Province of British Columbia**

OFFICE OF THE MINISTER

Ministry of Municipal Affairs, Recreation and Culture

Parliament Buildings
Victoria
British Columbia
V8V 1X4

August 1990

It is my pleasure to release this discussion paper, *New Directions for Local Government Finance: The Next Steps*, Part 1 — Dealing with a Changing Environment, the first in a series of publications on assessment and property tax reform, and local government financing.

This publication is the continuation of a process of public consultation and policy review that began with the report of the *Financing Local Government Study* in 1989 and the public hearings of the Property Tax Forum conducted by my predecessor, the Honourable Rita Johnston, and the Honourable Mel Couvelier, Minister of Finance and Corporate Relations.

By and large, British Columbia can be proud of its system of local government finance based on the fundamental principles of property assessments at market value, variable tax rates and provincial revenue sharing. Developments in the real estate market in 1988 and 1989, however, led to substantial increases in property values and municipal taxes in certain areas of the Province. The burden of school taxation was another major concern for many taxpayers.

The government addressed many taxpayer concerns through legislation in 1990. The *New Directions* series represents a commitment of government to review those issues that could not be addressed by immediate legislation and to provide another opportunity for public comment.

I sincerely hope that you will take time to give us your reactions to the policy options set out in this paper. Please address all correspondence to:

Director
Policy and Research Branch
Ministry of Municipal Affairs,
Recreation and Culture
1106 Cook Street
Victoria, British Columbia
V8V 1X4

Consultations with the ministry can be arranged on request.

Yours sincerely,

Lyall Hanson
Minister

91-00004/

Province of
British Columbia

Ministry of
Municipal Affairs,
Recreation and Culture

1312 Blanshard Street
Victoria
British Columbia
V8V 1X4

# NEW DIRECTIONS FOR LOCAL GOVERNMENT FINANCE: THE NEXT STEPS

## *PART 1 — Dealing with a Changing Environment*

### EXECUTIVE SUMMARY

This paper discusses the effect of changing property values on property taxes and analyzes options for reforming residential and commercial property taxation. It is Part 1 of a series of papers on improving the system of local government finance in British Columbia.

Our sophisticated system of property taxation based on market values has been refined over a period of 15 years. Local governments have flexible tax rate-setting powers to fund municipal services. The Province provides additional funding through the Revenue Sharing Program.

The property tax system is based on principles of fairness and equity, neutrality, stability, predictability, clarity and accountability. Any reforms must advance these principles.

In a market value-based system like ours, property taxes can change as dramatically as property values. Rapidly rising values, especially in Vancouver, fuelled a "property tax crisis" in 1989. This, in turn, fuelled the demand for taxation reform. However, studies suggest that 1989 was an abnormal year, and no cause for radical change. The taxation system's fundamentals are sound.

Incremental reform is preferred to radical change, for which there is no evident need in B.C. Experience with radical change — such as California's Proposition 13 — suggests that it can erode municipal services and destroy taxation equity.

Recent changes in the real estate market have compromised the stability and certainty of the property tax system. The evidence suggests that the effects have been most noticeable at the upper end of the housing market. In municipalities with large industrial taxpayers, local tax bases have been threatened by large assessment appeals. Local councils have been faced with the possibility of huge tax refunds.

The Province has already taken important steps to address these complex issues, including:

- wide-ranging consultation with taxpayers and municipalities, including the hearings of the Property Tax Forum and undertaking the *Financing Local Government Study* with the Union of British Columbia Municipalities;
- direct property tax relief through the Supplemental Home Owner Grant; and
- increased provincial contributions to education ($450 million this year) and introduction of block-funding to hold down increases in school property taxes.

The Province has already given municipalities two of the options proposed by tax reform groups:

- flat tax on residential properties (selected in 1990 by only five smaller municipalities experiencing declining property values);
- variable tax rates on land vs. improvements, to help manage short-term changes in property values.

In addition, stability and certainty have been returned to the industrial roll through the *Assessment and Property Tax Reform Act (No. 2), 1990*. Communities with large industrial taxpayers no longer are faced with large tax refunds.

The goal of future reform is to re-establish the system's certainty and stability, while preserving the other key principles.

The following key options for RESIDENTIAL PROPERTY TAX REFORM are reviewed in this paper.

- TAX AVERAGING would allow taxpayers to spread tax payments over three-years. Some municipalities could find, however, that averaging taxes would require more short-term borrowing.
- TAX DEFERMENT is already available to B.C. seniors; it could be extended to others who have lived in their homes for a long period, and would assist residents living in neighbourhoods under heavy pressure from development.
- TAX CAPPING could provide short-term relief to taxpayers whose property values are rising dramatically, but could shift the tax burden unfairly to lower-valued properties.
- A CIRCUIT BREAKER program would link property tax burdens to income levels, to take into account a property owner's ability to pay. Common in many U.S. states, the closest equivalent here is the B.C. Renter's Tax Reduction. Such an option could be considered in the future.

The issues and options are similar for COMMERCIAL PROPERTY TAXATION, with some additional considerations. For example, tax capping could be viewed as a distortion of the competitive business marketplace. The need for stability must be balanced against the desired degree of government intervention.

Changes to promote ASSESSMENT STABILITY include:

- ANNUAL ASSESSMENT ROLL (to replace the current biennial roll) which would increase predictability and certainty, but there are major costs attached to its reintroduction.
- ASSESSMENT AVERAGING which would spread value increased taxes over a three-year cycle, but is opposed by some experts because it is heavily interventionist, complex, costly and difficult for taxpayers to understand. Municipalities could be given greater flexibility to impose different tax rates on commercial land and improvements and to provide relief to business tenants in areas that have seen huge increases in land values (Vancouver). The tax implications of this proposal require further study.

As to which options are best — there is some agreement among groups and individuals involved in the consultation, but also much conflict and contradiction. For example:

- the 1989 Leckie Commission generally opposed Capping for commercial taxpayers, yet agreed that the City of Vancouver should be allowed to use this mechanism;
- some members of the "Financing Local Government" working group supported Assessment Averaging, while others rejected it;
- Union of B.C. Municipalities endorses Assessment Averaging;
- B.C. Assessment Authority makes a strong case againstAssessment Averaging, and supports re-establishment of an Annual Roll instead; and
- some people see low land taxes as a way to encourage development, while others see high improvement taxes as a way to discourage development.

Notwithstanding these conflicting opinions, further incremental changes could support the initiatives already taken toward a more stable tax system. These initiatives could take the form of Tax Averaging for residential and commercial taxpayers, expansion of Tax Deferral, and possibly the reintroduction of the Annual Roll. While the evidence does not point unambiguously to the need for radical measures, consultation over the next several months should make a conclusive determination of the preferred options.

# *New Directions for Local Government Finance:*

## THE NEXT STEPS

## DEALING WITH A CHANGING ENVIRONMENT

PART I

Province of
British Columbia

August 1990

Ministry of Municipal Affairs, Recreation and Culture,
Hon. Lyall Hanson, Minister

**Canadian Cataloguing in Publication Data**

Main entry under title:
New directions for local government finance

Contents: pt. 1. Dealing with a changing environment — pt. 2. Revenue sharing — pt. 3. Maintaining the dialogue — pt. 4. Towards a new assessment act — pt. 5. Planning for the 1990s

ISBN 0-7726-1176-9 (set). — ISBN 0-7726-1177-7 (pt. 1). — ISBN 0-7726-1178-5 (pt. 2) — ISBN 0-7726-1179-3 (pt. 3). — ISBN 0-7726-1180-7 (pt. 4). — ISBN 0-7726-1181-5 (pt. 5)

1. Municipal finance — British Columbia. 2. Municipal finance — Law and legislation — British Columbia. 3. Real property tax — British Columbia. 4. Tax assessment — British Columbia. I. British Columbia. Ministry of Municipal Affairs, Recreation and Culture.

HJ9014.B7N48 1990 336'.014711 C90-092212-5

## TABLE OF CONTENTS

**1. INTRODUCTION** 1
1.1 Objectives 1
1.2 Summary 1
1.3 Background 2
1.4 Recent Studies 3
1.4.1 The *Leckie* Commission 3
1.4.2 The *Financing Local Government Study* 3
1.4.3 The *Assessment Act* Rewrite Committee 4
1.4.4 The Property Tax Forum 4
1.5 History of the B.C. System of Local Government Finance 5
1.5.1 The British Columbia Assessment Authority 5
1.5.2 Assessment at Actual Value 5
1.5.3 Revenue Sharing 6
1.5.4 Variable Tax Rates 6
1.5.5 Taxes and Industry: The 1984 Review 6
1.6 The Fundamentals 7
1.7 The First Steps: Legislation and Consultation 7
1.7.1 Bill 17 8
1.7.2 School Tax Reform 8
1.7.3 *Assessment and Property Tax Reform Act, 1990* 8
1.7.4 *New Directions for Local Government Finance* 8

**2. 1990 LEGISLATION: PROPERTY TAX AND ASSESSMENT REFORM** 11
2.1 Background to the Legislation 11
2.2 The *Assessment and Property Tax Reform Act, 1990* 11
2.2.1 Changes to Municipal Taxing Powers 11
2.2.2 Changes to Assessment Practices 13
2.3 School Tax Changes 14
2.3.1 Block Funding 14
2.3.2 The Supplemental Home Owner Grant 15
2.4 Summary 16

**3. ASSESSMENT AND TAX STABILITY: RECENT PROPOSALS** 17
3.1 Assessment Stability: Limiting the Tax Base 17
3.1.1 The *Financing Local Government Study* 17
3.1.2 The BCAA Report on Assessment Averaging 18
3.1.3 Assessment Capping: Bill 17 22
3.1.4 Reassessment upon Sale 22
3.1.5 Assessment Phasing 23
3.1.6 The Annual Roll 23
3.1.7 The Guaranteed Roll 25

3.2 Tax Stability: Variations to the Property Tax 25
3.2.1 Flat Taxes: An Alternative 25
3.2.2 Tax Variation on Land and Improvements 25
3.2.3 User Fees 26
3.3 Other Tax and Assessment Relief Measures 26
3.4 Changes to the System: Incremental or Radical 27

**4. THE ENVIRONMENT** 29
4.1 Real Estate Trends in British Columbia 29
4.2 Factors in the Current Demand for Housing 32
4.2.1 Aging of the Population 32
4.2.2 Demographics, Wealth and Home Ownership 33
4.3 Trends in Housing Values and Property Taxes 34
4.4 Conclusions 37

**5. ANALYSIS AND CONCLUSIONS** 39
5.1 The Principles of an Ideal Tax System 39
5.1.1 The Tax Impact of the Supplemental Home Owner Grant 39
5.1.2 Other Tax Impacts 39
5.1.3 Stability and Certainty 41
5.2 Options for Property Tax Relief 43
5.2.1 Policy Principles 43
5.2.2 Further Residential Relief 43
5.2.3 Social Welfare Considerations: Circuit Breakers 46
5.2.4 Commercial Property Tax Relief 46
5.3 Options for Assessment Stability 48
5.4 In Conclusion 51

**NOTES** 53

# 1. INTRODUCTION

## 1.1 Objectives

The purpose of this study, *New Directions for Local Government Finance: The Next Steps*, is to review the existing framework for the financing of local governments in British Columbia and to propose changes that will provide for future improvement. The study is founded on two basic premises:

**New Directions sets out the government's continuing program of local government finance reform.**

> that the purpose of the property tax is to provide a basis for funding local government services that is consistent with long-term economic growth, and that is fair and accountable to taxpayers; and
>
> that the purpose of provincial support for local governments is to supplement local funding so that property taxes will be kept at reasonable levels and to reduce differences in the ability of local governments to finance necessary services.

## 1.2 Summary

This study comprises several distinct parts to be released separately. Each part will analyze options that can be considered as viable alternatives, in a changing environment, for improving the system of local government finance in British Columbia.

Part 1 discusses the effect of changing property values on property taxes. It identifies the degree to which the current system of local government funding cushions the rate of change and proposes new complementary measures. In particular, it explores the possibility of giving municipalities further taxing flexibility through tax averaging. Other measures such as an enriched Land Tax Deferment Program are also examined.

**Part 1 examines change, both in property values and taxes, and measures to deal with the effects.**

A subsequent part of *New Directions* will examine the Revenue Sharing Program through which revenues from provincial income and consumption

**Later this year, publications will examine the Revenue Sharing Program.**

taxes and natural resource revenues are distributed to local governments. This part will discuss questions concerning the appropriate amount of provincial assistance and its distribution.

**Improved communications will be discussed.**

The question of communication between the provincial government, local governments, and taxpayers will be reviewed. Specific proposals will be made for improving provincial/municipal cooperation in property tax matters, and for rationalizing property tax notification and payment procedures. The goal will be to enhance local accountability and voter participation by making local taxpayers more aware of how their taxes are determined.

**Further changes to assessment legislation will be reviewed. Long-term reform will also be examined.**

Remaining papers in the series will deal with various topics. A new legislative framework for 1991 will be proposed. This part will incorporate a number of proposals for further assessment legislation. Future directions for property tax reform, consistent with the government's emphasis on long-term planning, will be discussed. This part will include an examination of alternatives to the property tax such as user fees. Other studies may be added to the *New Directions* series at a later date.

### 1.3 Background

**In 1989, the assessment roll was 17% higher than in 1988.**

This study is being released following a period in which property values have undergone dramatic changes. From 1988 to 1989, the provincial assessment roll, which had grown slowly since the 1982 recession, rose by 17% in response to the reviving B.C. economy. This growth was particularly marked in Vancouver and the Lower Mainland. These assessment increases were not evenly distributed. As a result some areas in Vancouver saw increases of over 100% whereas in average neighbourhoods, increases reached only 35.5%. With a percentage tax rate on assessed values, taxpayers whose properties had increased substantially received significantly higher tax bills. In other parts of the province, however, property assessments actually fell, thus placing added burdens on municipalities facing undiminished demands for services and declining tax bases.

By the spring of 1990, there was every indication that the real estate boom in Vancouver and elsewhere in Canada, particularly the Toronto area, had

come to an end. Rising interest rates and falling housing sales heralded a downturn. Falling sales values can have the same uneven impacts on property taxes as the previously mentioned increases. The cyclical nature of the real estate market also suggests that policy measures will tend to lag behind developments in the market. It is abundantly clear that policy changes must address the problems created by both rising and falling markets.

### 1.4 Recent Studies

**The *Leckie* Commission investigated assessment and property tax increases in Vancouver.**

The rapid increase in residential assessments in Vancouver led to the establishment of the Municipal Taxation Review Commission (the *Leckie* Commission) that was to recommend changes to the assessment and taxation systems in the City. The Commission held public hearings across the City and solicited briefs and submissions from various interested groups and individuals.

#### 1.4.1 The *Leckie* Commission

In its report of March 1989,[1] the Commission concluded that market value was the appropriate base for assessment purposes, but that equity had been violated by the extreme assessment increases on some properties and that "it was therefore appropriate to adopt a circuit breaker to soften the increase in taxes at least to the extent of spreading it over time."[2]

#### 1.4.2 The *Financing Local Government Study*

**The *Financing Local Government Study* was a joint commitment of the Ministry and the Union of British Columbia Municipalities.**

Early in 1988, the Union of British Columbia Municipalities asked the provincial government to join in a study of long-standing municipal finance concerns. The Minister of Municipal Affairs, Recreation and Culture and the UBCM made a joint commitment at the September UBCM convention to undertake the *Financing Local Government Study*. The Study was to explore ways of improving the intergovernmental finance system with particular emphasis on the effects on local governments.

**Many *Financing Local Government Study* recommendations were included**

Working groups were established to study four broad issues: (1) provincial contributions, (2) assessment, (3) the property tax burden, and (4)

intergovernmental finance relations. Each group had representatives from local government, the Ministries of Municipal Affairs, Recreation and Culture and of Finance and Corporate Relations, the British Columbia Assessment Authority, and in particular cases, the Ministries of Education and Health. The final report was tabled at the fall 1989 UBCM convention.[3]

**in the *Assessment and Property Tax Reform Act*, in the spring of 1990.**

### 1.4.3 The *Assessment Act* Rewrite Committee

**In 1989, a committee began work on a complete rewrite of the *Assessment Act*.**

Late in 1988, the government initiated a rewrite of the *Assessment Act*, the statute that governs the assessment of real property in British Columbia. The government's view was that the original statute was essentially a hurried amalgamation of different legislation. The intention was to reorganize the statute for greater comprehensibility and logic and to address problems of interpretation. The goal was one of clarification and refinement; there was no intention to change the basic policies under which all property was assessed at market value by an independent, central assessment body. A small committee composed of representatives of the Ministry of Finance and Corporate Relations, the British Columbia Assessment Authority and the Ministry of Municipal Affairs, Recreation and Culture was established to complete the project.

The committee prepared a discussion paper containing its proposals for changes to the *Assessment Act*.[4] Many of the recommendations were discussed in the *Financing Local Government Study* working group on assessment issues. The discussion paper was also circulated to a small group of assessment experts and to UBCM members at the September 1989 convention.

### 1.4.4 The Property Tax Forum

**The Property Tax Forum held public meetings across the province to hear taxpayers' concerns.**

In July 1989, the Honourable Rita Johnston, then Minister of Municipal Affairs, Recreation and Culture, and the Honourable Mel Couvelier, Minister of Finance and Corporate Relations, announced the Property Tax Forum. A panel of the two ministers, UBCM President Mayor Marilyn Baker, and Mr. Conrad Adams, taxpayer representative, toured the province in late August and September to hear taxpayer concerns. The *Report of the Property Tax Forum* was published in December 1989.[5]

The Forum received submissions on various issues, most notably: (1) stability of the tax system, a concern shared by many individuals in the face of rapid tax changes, (2) flexibility, a concern of local governments and taxpayers that the system must by responsive to regional differences, and (3) school taxes. Property Tax Forum issues were included in the *Assessment and Property Tax Reform Act, 1990* introduced in the 1990 spring session.

**Stability, flexibility and school taxes were province-wide concerns.**

### 1.5 History of the B.C. System of Local Government Finance

The recent studies have all supported the general framework of the province-wide assessment and property tax systems that have been established over the past fifteen years. The framework of these systems rests primarily on: (1) market value assessments, (2) local tax rate setting powers, and (3) provincial grants to municipalities through the Revenue Sharing Program.

#### 1.5.1 The British Columbia Assessment Authority

The development of the framework for the current system of local government finance in British Columbia can be dated from July 1974 with the creation of a province-wide independent assessment agency, the British Columbia Assessment Authority. The establishment of such a body, which was to be independent from the taxing function, was recommended by an all-party legislative committee.[6]

**The British Columbia Assessment Authority was created in 1974.**

#### 1.5.2 Assessment at Actual Value

In July 1978, legislation was introduced under which land and improvements were to be appraised at actual or market value. It replaced a system under which assessed values had come to be determined by a set of arbitrary rules. Municipal taxes, however, continued to be levied on a base of fractional assessments, the fractions being determined by the Province.

**In 1978, actual or market value was established as the basis for assessment.**

### 1.5.3 Revenue Sharing

**In 1977, the Province introduced the Revenue Sharing Program that guaranteed local governments grants from the provincial revenue base.**

In 1977-78, the provincial government moved to rationalize its program of grants to municipal governments with the introduction of the Revenue Sharing Program. The program was designed to provide local governments with greater access to the provincial revenue base, to make the level of the annual provincial grant more predictable, to place a reasonable limit on the Province's contribution, and to require municipalities to share in swings in provincial revenues caused by changes in the provincial economy. Grants under this program supplement local revenue, reduce disparities between municipalities and assist in financing particular services.

### 1.5.4 Variable Tax Rates

**The variable tax rate system, introduced in 1983, gave municipalities increased taxing flexibility and the power to manage the distribution of the tax burden between the various classes of property.**

Municipalities were granted increased taxing flexibility in 1983 with the establishment of the variable tax rate system. In previous years, councils were restricted to setting a uniform tax rate for all of the then eight property classes taxable for general municipal purposes. The new variable rate system was a dramatic change; municipalities now had the power to manage tax distribution within their boundaries. The introduction of the variable tax rate system was accompanied by a move to taxation on full assessed or market values; fractional assessments were abandoned for municipal purposes. All property taxes were switched to full market value assessments and variable tax rates in 1984.

### 1.5.5 Taxes and Industry: The 1984 Review

**A 1984 review of the impact of taxes on economic development led to school tax changes for non-residential taxpayers.**

In the fall of 1984, the government embarked upon a review of the effect of taxation on economic development. The review included a series of meetings conducted across the Province. Among the major themes of this review was the relatively high level of fixed taxes on some businesses and the financial impact these taxes had on business operations during periods of poor economic conditions. In the subsequent 1985 provincial budget substantial reductions to fixed taxes on business were introduced. These reductions included two changes to property taxation. Machinery and equipment were removed from the assessment roll thereby reducing property taxes on business by an estimated $200 million. School tax rates on non-residential property were also reduced across the board.

## 1.6 The Fundamentals

Against this background, it is important for government to identify those framework issues on which there is reasonable consensus and other issues that require additional work.

**The fundamentals of the current system are sound.**

In general, there is wide-spread agreement that the fundamentals of the current system are sound. The introduction of appraisals at market value in 1978 followed five years of consultation that had begun with the appointment of the *McMath* Commission.[7] Most local governments and business groups support market value assessments. This concept also seems to have the general support of taxpayers.

The variable tax rate system was also introduced after considerable consultation. This decentralized approach to taxation has allowed municipalities the autonomy and flexibility needed to deal with changes to property values. Although not without problems, the system is a substantial improvement over earlier more centralized tax schemes.

Finally, the principle of sharing certain provincial revenue sources with local government on the basis of population and fiscal requirements has found continued support. An endorsement of revenue sharing was the first recommendation of the *Financing Local Government Study*.

## 1.7 The First Steps: Legislation and Consultation

**Expectations for reform were very high following the *Leckie* Report, the *Financing Local Government Study* and the Forum hearings.**

The government was aware that the *Financing Local Government Study* and the hearings of the Property Tax Forum had raised the public's expectations for property tax and assessment reform in 1990. Added to these rising expectations was the continued boom in the real estate market especially in the Greater Vancouver Regional District. Given the necessity of implementing urgent assessment and property tax reform in a short timeframe, the government decided to adopt an incremental approach.

### 1.7.1 Bill 17

**Bill 17 allowed municipalities to cap residential land assessments.**

Effective for 1989, the government introduced Bill 17, the *Residential Property Tax Increase Limitation Act*, that allowed municipalities to cap assessments of residential land. This relief was used only by the City of Vancouver. Later in the year, the government approved a City of Vancouver bylaw that capped commercial property taxes. Bill 17 and the Vancouver tax capping scheme were only stop-gap solutions. Such measures alleviated the tax burden on properties that had increased in value significantly. At the same time, these measures shifted some of the burden to properties that had not increased as much.

### 1.7.2 School Tax Reform

**School tax reform was announced in the April Budget.**

The system of funding for schools was a major concern both of the *Financing Local Government Study* and of many taxpayers who appeared before the Forum. Changes to the school financing system and some changes to the school tax system were announced in late January 1990. Further school taxation reform was announced during March and April. The establishment of the Supplemental Home Owner Grant as part of school tax reform will significantly reduce school taxes on residential properties.

### 1.7.3 *Assessment and Property Tax Reform Act, 1990*

**The Ministry of Municipal Affairs, Recreation and Culture addressed urgent issues in the *Assessment and Property Tax Reform Act, 1990*.**

The Ministry of Municipal Affairs, Recreation and Culture's first major step was to address the high priority and elementary issues immediately through legislation in the spring 1990 session. This legislation was the *Assessment and Property Tax Reform Act, 1990*.[8] The provisions of this new bill are discussed in chapter 2.

### 1.7.4 *New Directions for Local Government Finance*

**More complex matters are to be discussed with the UBCM. *New Directions* is the foundation for these discussions.**

The Minister of Municipal Affairs, Recreation and Culture and the UBCM agreed to further consultations on outstanding complex issues. A commitment to further discussions was made in recognition that radical changes to the system of funding local governments and to the methods of

assessment and property taxation could not be accomplished in one legislative session. In particular, this new round of consultations will examine in depth the concept of assessment averaging, a return to the annual roll, certain refinements to municipal taxes, improved communications and diversification of municipal revenue sources. *New Directions for Local Government Finance: The Next Steps* is the foundation for the future.

## 2. 1990 LEGISLATION: PROPERTY TAX AND ASSESSMENT REFORM

### 2.1 Background to the Legislation

The *Assessment and Property Tax Reform Act, 1990* was introduced into the Legislature in two stages in July 1990. The bills were the culmination of work that had begun shortly after the conclusion of the Property Tax Forum hearings. Included were a number of high priority items for property tax reform. With the transfer of responsibility for the British Columbia Assessment Authority and the Assessment Appeal Board from the Ministry of Finance and Corporate Relations to the Ministry of Municipal Affairs, Recreation and Culture in November 1989, the ministry also became responsible for introducing changes to assessment legislation.

**The Ministry of Municipal Affairs, Recreation and Culture also became responsible for assessment legislation when the British Columbia Assessment Authority and the Assessment Appeal Board were transferred from the Ministry of Finance and Corporate Relations in November 1989.**

Many outstanding matters could not be subject to immediate legislative change because of their complexity. These issues ranged from the question of assessment averaging, a concept that would represent a radical departure from the present system, to concepts such as the role of the user-pay principle in municipal finance. The Minister of Municipal Affairs, Recreation and Culture agreed with the UBCM to study these outstanding issues in a series of reports, and to discuss them further in 1990.

### 2.2 The *Assessment and Property Tax Reform Act, 1990*

The *Assessment and Property Tax Reform Act, 1990*, introduced measures designed to increase certainty, stability, and equity in the assessment and property tax systems in British Columbia. The individual measures were minor; collectively, however, they represented a significant incremental improvement to the provincial assessment and property tax systems that have been recognized throughout Canada as being essentially well designed.

**The *Assessment and Property Tax Reform Act, 1990*, was introduced in the Legislature in July 1990.**

#### 2.2.1 Changes to Municipal Taxing Powers

The new legislation introduced two important changes to the forms of municipal taxation under the *Municipal Act*. Under the old legislation, municipalities were empowered to levy property value (or *ad valorem*) taxes using variable rates on the nine property classes. The tax base was the

**Changes were made to the forms of municipal taxation permitted under the *Municipal Act*.**

combined net taxable value of land and improvements. The use of so-called flat taxes (i.e., lump sum taxes) was limited to cost-recovery instruments such as frontage and parcel taxes. The *Assessment and Property Tax Reform Act, 1990* contained major changes; it allowed the imposition of a flat tax for general purposes in addition to the property value levy and the establishment of separate tax rates for land and improvements.

**A flat tax for general municipal purposes is now an option for municipalities.**

A flat tax for general municipal purposes was strongly supported by local politicians and the Union of British Columbia Municipalities in the *Financing Local Government Study*. The ministry also received submissions from municipalities concerned about the shifts in tax burdens as a result of falling assessed values. A flat tax was felt to be more equitable to property owners whose assessments had not fallen.

**Municipalities may choose a flat tax in addition to property value levies for residential properties only.**

A flat tax places a larger burden on lower valued property; this was a major concern for the ministry. To counter this shift in the burden, the amendments specified that the flat tax could not be levied except as an addition to the property value charge. The flat tax option is only applicable to residential (Class 1) properties and is at municipal option. For 1990, municipalities are restricted to distinguishing only two kinds of property - vacant land and other than vacant land - for the purposes of imposing a flat tax. A more sophisticated classification scheme will be the subject of further study.

**Municipalities may now set different tax rates on residential land and improvements.**

The second major change to municipal taxation was an amendment to the *Municipal Act* to allow municipalities to set separate tax rates on residential land and improvements. Much of the huge increase in assessment roll values in Vancouver and the Lower Mainland has been in land values rather than in improvements.

Figure 1 shows the relative increases in the values of land and improvements in Vancouver from 1980 to 1989. Land values in the City of Vancouver increased by 186% from 1980 to 1989 and showed much greater instability whereas the value of improvements increased at a fairly constant rate by only 91%. Any tax system that would permit the levying of a lower rate on land would therefore do much to ameliorate rapid increases in taxes such as were witnessed in 1989, and provide much greater

**Fig. 1**

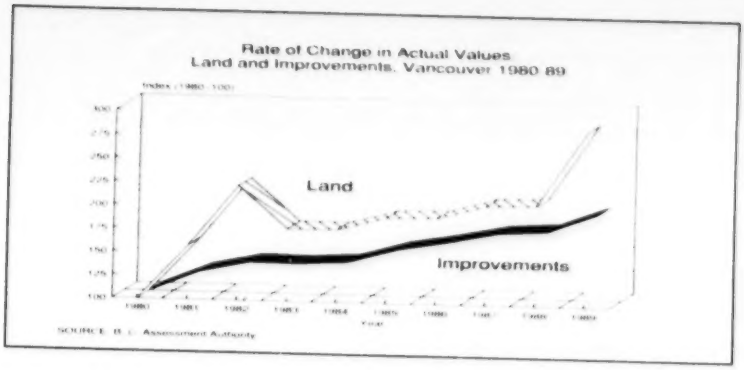



**Figure 1 shows that Vancouver land values have grown much more rapidly and wildly than the value of improvements.**

tax stability. As with the flat tax option, separate rates for land and improvements are limited to Class 1 properties and will be a municipal option.

The bill also contained some minor amendments to the wording of certain tax exemptions under section 398 of the *Municipal Act*. These amendments clarified the scope and language of the exemption for land held in trust for Indian bands to limit the exemption to reserve land, excluded septic tanks from the pollution abatement exemption, and allowed the Minister of Health to designate land for hospital purposes.

### 2.2.2 Changes to Assessment Practices

The need for improved stability in assessments and taxation was the major theme of the tax forums. The government introduced legislation to redefine improvements with particular emphasis on major industrial improvements to return certainty and stability to the roll and equity within classes. The *Assessment and Property Tax Reform Act, 1990* will serve as a firm foundation for future assessment and property tax reform.

**Various amendments were made to the *Assessment Act*.**

Changes to the definition of major industry improvements were identified as a high priority issue by the UBCM and others including the industrial taxpayers themselves. The changes were dictated by two assessment appeal decisions.

**Improvements were redefined to add stability and certainty to the industrial roll.**

The *Chevron* (blending tanks) case had major financial consequences for the municipalities of Burnaby and Port Moody. Without changes, uncertainty and instability of the roll would have been perpetuated for the future, especially for many smaller municipalities with only one major industrial taxpayer.

Yet another decision of the Court of Appeal raised questions about the definition of improvements. The *Galloway Lumber* case upheld a decision of the Assessment Appeal Board that dry kilns used for drying lumber were machinery and equipment and therefore not assessable.

In the absence of a complete redraft of the *Assessment Act* as was originally contemplated, certain other amendments were made to provide for the effective and efficient functioning of the assessment process, to clarify some ambiguities in the statute and to correct the unintended consequences of earlier legislation.

**Other *Assessment Act* amendments were aimed at improving efficiency and clarity.**

### 2.3 School Tax Changes

The 1990 legislative agenda also saw major changes to school finance and taxation. As noted in chapter 1, changes in the school financing system and school taxation were announced by the Minister of Education in late January. The necessary amendments were introduced into the Legislature on April 10 in Bill 11. The bill set out changes to a system of block funding, the levying and collection of property taxes for schools purposes and the requirements for local referendums.

#### 2.3.1 Block Funding

Stability has been added to the school finance system with the change to block funding. The government recognized all money spent in school districts in 1989/90, including supplementary increases previously funded by local property taxes, in the block. This funding increase has lowered the basic school levy imposed on all residential property owners. Consistent with the Province's assumption of responsibility for the total block, therefore, school property taxes will now be set by Order in Council (as has

**The Province moved to a system of block funding for schools purposes. Increased funding from the Province relieved the burden on local taxpayers.**

been done for non-residential property since 1982). School districts wishing to exceed the spending determined by the block must hold referendums to put the question to the taxpayers. In addition to these constraints on school taxes, further relief was provided to homeowners by enriching the Home Owner Grant Program.

### 2.3.2 The Supplemental Home Owner Grant

**The Supplemental Home Owner Grant will provide further property tax relief.**

Further relief from school property taxes was provided through the new Supplemental Home Owner Grant. For 1990, the grant is 25% of school property taxes in excess of the basic grant of $430 ($700 for seniors). Neither the regular nor supplemental grant may be applied against school taxes raised by referendum. This new program will result in tax reductions for higher valued properties. Figure 2 shows the effect of the grant on higher valued homes (in the 90th percentile of assessed values) in five different locations: Vancouver, Surrey, Vernon, West Vancouver and Kamloops. Only in Kamloops do net property taxes rise, assuming a 5% increase in municipal taxation and a 5.5% increase in school taxes. The Supplemental Home Owner Grant will bring much needed tax relief to taxpayers whose homes have risen substantially in value.

**Fig. 2**

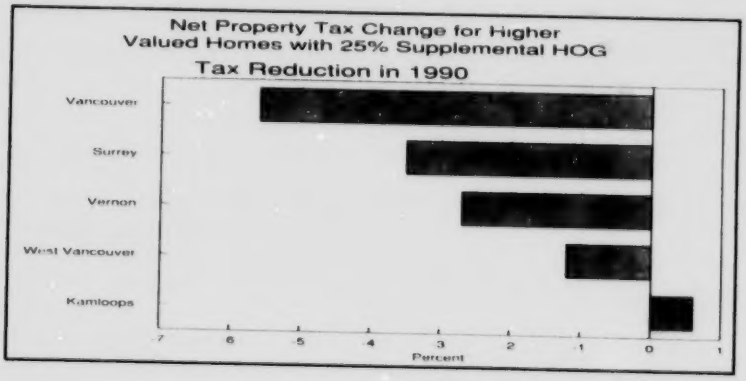



**Figure 2 shows the tax reductions on higher valued homes resulting from the Supplemental Home Owner Grant.**

The increase in funding for schools and additional Home Owner Grant will reduce total net school property taxes by $18 million in 1990. Without these changes, it is estimated that residential property owners would have faced an increase in net school taxes of $120 million.

## 2.4 Summary

Initiatives introduced in 1990 brought major tax relief to homeowners through the Supplemental Home Owner Grant. Increased provincial funding for public schools protected taxpayers from large increases in gross school taxes to be levied in 1991. Municipalities have been given two important new tax instruments, the flat tax and separate tax rates on land and improvements, with which to manage short-term but rapid change in property values. Residential taxpayers will be cushioned from the extreme swings of the real estate cycle. Industrial taxpayers have been placed on a level field with the introduction of a new improvements definition, and stability and certainty have been returned to the industrial assessment roll. The 1990 legislation agenda has brought major changes to the property tax and assessment environment in the Province.

## 3. ASSESSMENT AND TAX STABILITY: RECENT PROPOSALS

### 3.1 Assessment Stability: Limiting the Tax Base

#### 3.1.1 The *Financing Local Government Study*

**The *Financing Local Government Study* tackled the question of capping or otherwise limiting assessment increases.**

Chapter 1 noted that one working group of the *Financing Local Government Study* was appointed to study assessment matters. The main issue for this group was the concept of capping, averaging or phasing-in of assessments. The group examined the recommendation of the *Leckie* Commission for a capping mechanism, and a return to the annual roll. *Leckie* had rejected averaging "primarily on the basis that [it] ... is totally and permanently interventionist and the capping mechanism is minimally interventionist, applying a remedy only where and when needed."[9]

The working group identified several problems in designing a suitable phasing-in approach. These problems included:

> how to treat changes in assessment attributable to sub-division, development and re-zoning;
>
> how to explain to the taxpayer the difference between the underlying assessed value and the property value for tax purposes (and which value is subject to appeal); and
>
> how to decide which classes of property are eligible for the phasing-in adjustment.[10]

**The FLG working group could not reach a consensus; some members recommended capping or averaging; others preferred expanded tax relief.**

The working group could not reach a consensus on the issue of limiting assessment increases. Two alternatives were proposed for further discussion. Recommendation 20(a) rejected averaging or capping in favour of improved tax relief measures whereas recommendation 20(b) proposed a three-year averaging mechanism combined with the annual roll. Members of the group who supported an averaging mechanism felt that a three-year scheme would be easy for taxpayers to understand; the opponents of averaging, on the other hand, considered that an averaging or capping mechanism would confuse the

taxpayer, especially as the relationship between assessment changes and taxation decisions is still not fully understood.

**Averaging of assessments also received support at the Property Tax Forum.**

Taxpayers who appeared before the Property Tax Forum also recommended assessment averaging. As the Report noted, the "most frequent proposal for improving stability was to average assessments over a period of three to five years. This suggestion was usually combined with a request to return to annual assessments."[11] Municipal representatives at the Forum favoured averaging because it would create a better match between fairly stable municipal expenditures and the tax base.

**The UBCM identified assessment averaging as one of its 1990 legislative priorities.**

The Union of British Columbia Municipalities strongly supported the concept of assessment averaging; indeed, it would not endorse Recommendation 20(a) of the *Financing Local Government Study*, that averaging should be rejected in favour of other tax relief, but instead identified averaging as one of its 1990 legislative priorities along with the annual roll.

### 3.1.2 The BCAA Report on Assessment Averaging

**The BCAA published a report on assessment averaging in March 1990.**

In March 1990, the British Columbia Assessment Authority published a report on assessment averaging. The report analyzed the effect of a three-year assessment averaging scheme on six sample residential properties in the City of Vancouver. The Authority concluded that assessment averaging "proved to be of negligible benefit in dampening property tax shifts - the property tax impact of assessment averaging is marginal."[12]

For the analysis, the Authority selected six properties as representative of the residential tax base. Properties 1 (1989 actual value of $343,000), 2 (1989 actual value of $1,593,450) and 3 (1989 actual value of $566,100) were from the west side of Vancouver; properties 4 (1989 actual value of $194,250), 5 (1989 actual value of $64,000) and 6 (1989 actual value of $97,500) were from the east side of the City. A theoretical tax base was calculated and then a tax total computed to generate revenue neutral tax rates for the years 1978 to 1989.[13] The results are shown in figures 3-1 to 3-6.

**Fig. 3-1**

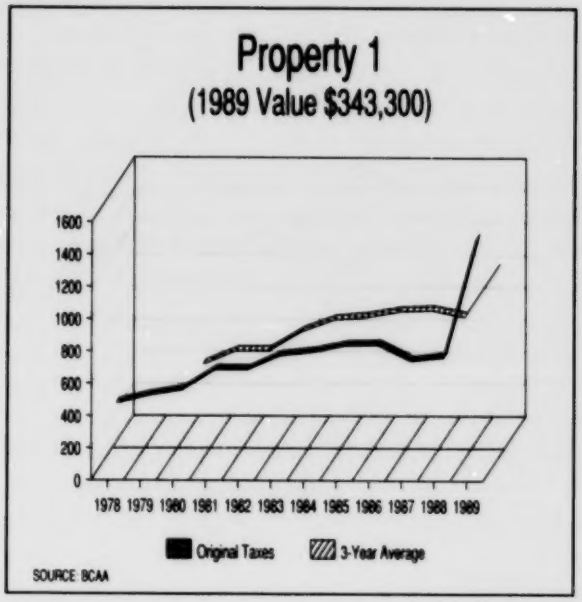



**Fig. 3-2**

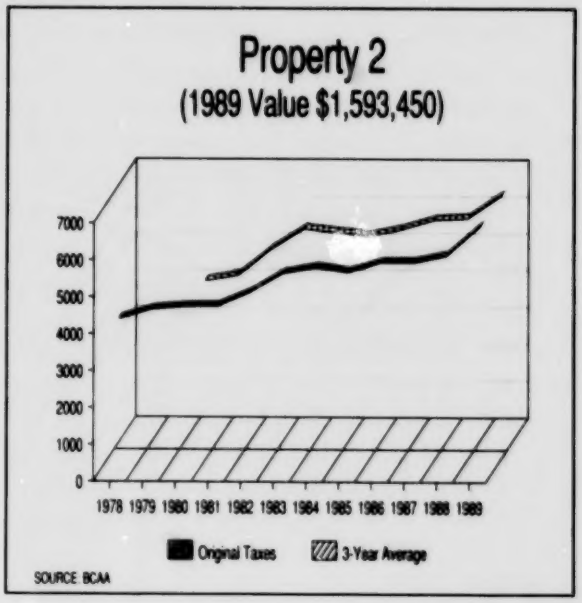



**Fig. 3-3**

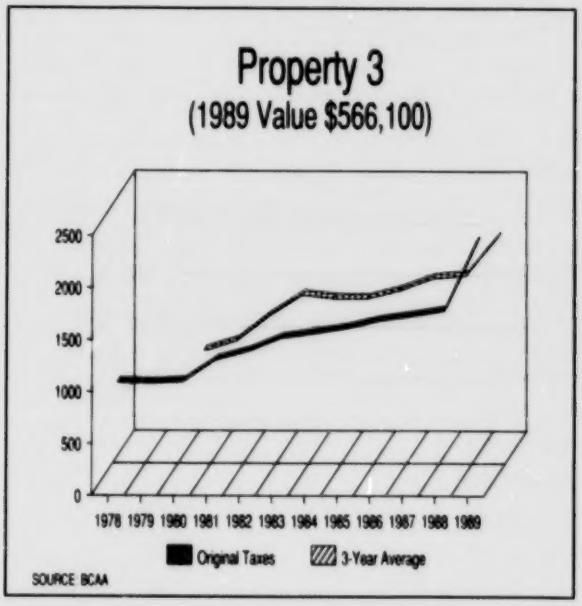



**Fig. 3-4**

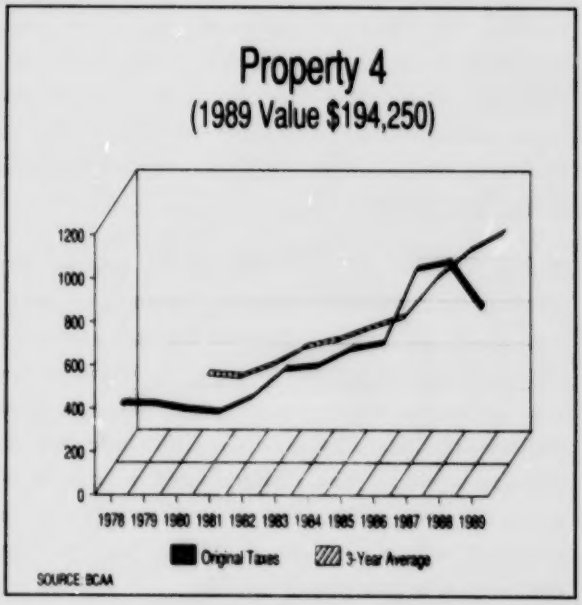


**Fig. 3-5**

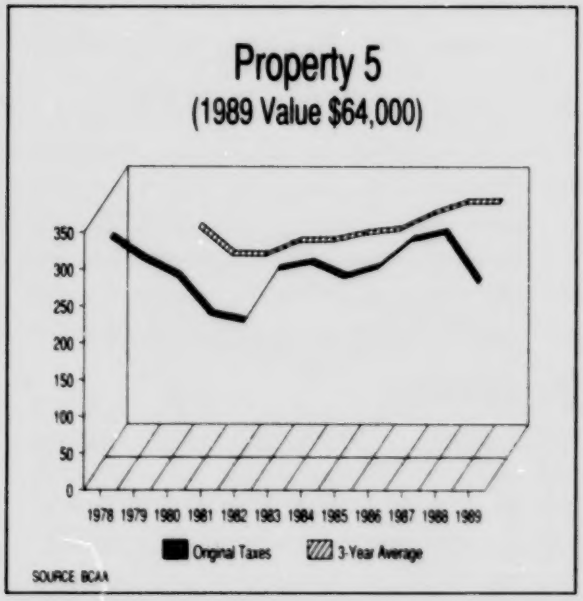
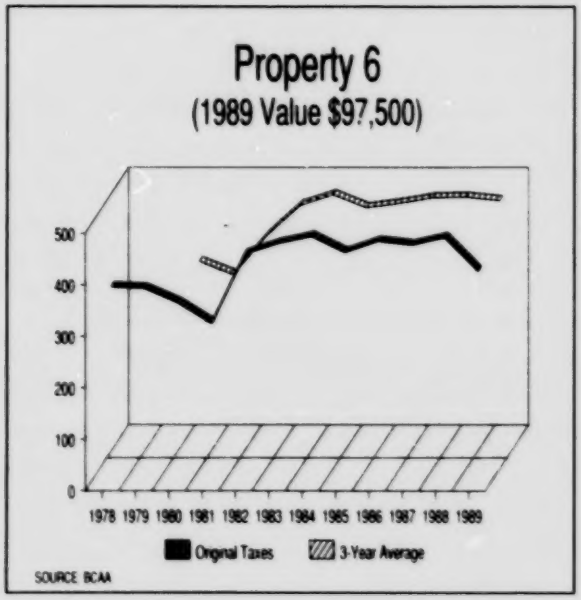



**Fig. 3-6**




From its analysis, the Authority concluded that averaging did not produce significant tax reductions for properties experiencing large value increases. Only property 1, on the west side of the City, received a significant reduction. On the other hand, by far the worst off were the two least expensive properties - properties 5 and 6. Under the averaging scheme, these properties would have paid more taxes in the 1980s than under the actual value system.[14]

**Not all expensive properties received substantial tax benefits under the averaging scheme; however, the two least expensive properties paid more tax.**

The BCAA also examined other factors involved in determining the necessity for assessment averaging. Regarding the need for an averaging mechanism, the Authority observed that only when the rate of change in values is markedly different among properties in the same community is there any need for a change in the system, and said "during the last decade, with the exception of a few isolated incidents in the early years, 1989 was the only year where tax shifts clearly resulted in a call for modification of the system."[15] Municipalities may counter a reduction in values produced by averaging with an increase in the tax rate, thus compromising the effectiveness of an averaging scheme.

From the point of view of the Authority, which has a provincial mandate to administer the property assessment system, administrative and technical concerns about assessment averaging must be a high priority. Changes in zoning, use or subdivision usually increase property values. Under an averaging system, owners would escape taxation unless hypothetical values to reflect the new status of the property were developed. New construction or the addition of improvements would create similar problems. On the other hand, where improvements are demolished, owners would be paying on past higher values in the current year.

**The Authority also reviewed other factors: need and effectiveness; administrative and technical considerations including the effect of zoning, subdivisions, changes in use or density, new construction; the appeals process; the question of mandatory averaging.**

The introduction of assessment averaging would, in the view of the Authority, introduce complications into the appeal process and create confusion among property owners. New appeal procedures would have to be developed for "averaged assessments." The creation of averaging as an option for municipalities would eventually lead to the development of two parallel systems in British Columbia.

The Authority concluded from its analysis that averaging was at best only of marginal benefit under the most extreme conditions of unbalanced increases in assessed values. Assuming any change to existing practice was necessary, the preferred alternative was a return to the annual roll.

**The BCAA recommended the reintroduction of the annual roll rather than the establishment of an averaging scheme.**

> The solution to the current residential property tax problem seems to be to smooth out the rate of change in the eventual amount of property taxes paid by homeowners each year. An effective way of accomplishing this task, while still maintaining the principles of an ideal property tax system, would be to reintroduce an annual roll throughout the province, without any other changes to the current assessment system.[16]

### 3.1.3 Assessment Capping: Bill 17

**Bill 17 capped residential land values in 1989 at the municipal average plus 15%. Only Vancouver used this option.**

Chapter 1 noted that Bill 17, the *Residential Property Tax Increase Limitation Act*, was a partial response to the *Leckie* Commission's recommendation for a capping scheme. The Bill provided that municipalities could cap residential land values (where the more severe increases had been witnessed) at the average increase plus 15%, but only the City of Vancouver elected to use this option. The cap was designed to assist only those whose properties had increased substantially beyond the community average. Bill 17 was effective for 1989 only, and thus did not provide a mechanism for dealing with declining markets and properties that had previously benefitted from capping as had been recommended by *Leckie*. If the Bill had been extended into 1990 and beyond, inequities could have been created by current falling land values in the absence of an adjustment mechanism. A more permanent measure would have to take into account adjustments to declining values.

### 3.1.4 Reassessment upon Sale

The *Financing Local Government Study* opted for assessment averaging rather than capping; however, some submissions to the Property Tax Forum called for reassessment only at the time the property was sold. Since this recommendation is simply a variant of California's Proposition 13, it is useful to review this more extreme form of limiting assessment increases.

**California's Proposition 13 allowed assessment increases of only 2% per year unless the property was sold. Limits were also put on local property tax rates.**

In 1978, California voters passed Proposition 13 which was enacted as an amendment to the State Constitution. The amendment rolled back assessed values to 1975-76 levels, capped property tax rates at 1% of assessed values and allowed a maximum assessment increase of 2% per year unless the property was sold, at which time it was reassessed at full market value. New construction was assessed at full market value and than fell under the 2% rule.

**Proposition 13 destroyed any sense of equity in the property tax system as assessment and taxation of identical**

In reviewing the impact of Proposition 13 as a tax/assessment relief measure, it is important to realize that the original purpose of the amendment was to control what its proponents saw as wasteful government

spending at a time of high property taxes and a huge state surplus. There did not appear to be any appreciation of the service impact of cutting local government property tax revenues by 50%. What Proposition 13 did do well, however, was to destroy any sense of equity in the tax system because the assessment and the resulting tax bill for otherwise identical properties became solely dependent on length of ownership. Beneficiaries were persons who hade owned their property for a long time and the better off; losers were those who had to change residences, young first-time homebuyers, renters and low income groups. Proposition 13 was essentially a regressive system that transferred the tax burden from older, better-off taxpayers to younger, less well-off persons. Among other winners were oil companies, aircraft manufacturers, financial institutions and public utility companies. Business properties received tax reductions of $3.5 billion compared to residential tax relief of $2.0 billion.[17]

**properties were determined by length of ownership.**

### 3.1.5 Assessment Phasing

Both the *Financing Local Government Study* and the Property Tax Forum referred to assessment phasing as an alternative to averaging or capping. Under a phasing system, assessment changes would be phased in over the period between a new assessment roll and the previous roll. An example of a phased assessment system is the State of Maryland.

Maryland is unique among states of the U.S.A. in that it has a state-wide, independent assessment authority.[18] Maryland's assessment system is based on a three-year cycle in which one-third of all taxable real property is reviewed each year. Appraisals are based on the market or "full cash value of the property". A phase-in provision provides that only one-third of any increase in value is added to the first year's value with the balance being added in equal instalments over the next two years. For example, a property increasing in value for assessment purposes from $72,000 to $84,000 would have a value of $76,000 in year one, $80,000 in year two and $84,000 in the last year.[19] Decreases in value are effected immediately.

**Maryland phases in assessment increases in three equal instalments over the assessment cycle.**

### 3.1.6 The Annual Roll

Reestablishment of the annual roll was recommended by the *Financing Local Government Study* and many submissions to the Property Tax Forum.

**The annual roll has received much support. The biennial roll was**

The Study opted for an annual roll combined with an averaging mechanism. British Columbia had an annual roll until 1983; the biennial roll was adopted during the restraint period. Figure 4 below shows fluctuations in the actual roll, a three-year moving average and an estimate of an annual roll from 1984 to the present produced by smoothing the two-year increases. The large drop in the roll values from 1986 to 1987 results from the removal of machinery and equipment.

**introduced during B.C.'s restraint period.**

**Fig. 4**

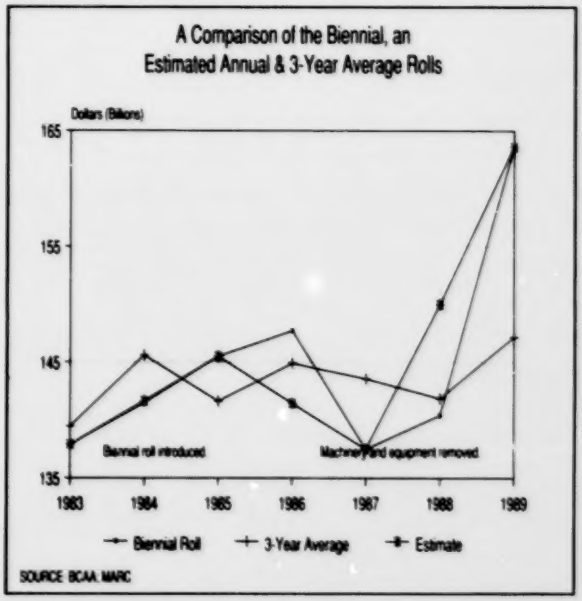



**Figure 4 shows curves fitted to the values for the biennial, estimated annual and 3-year average rolls.**

As can be seen from figure 4, the estimated annual roll has a somewhat flatter profile from 1983 to 1987 than the current biennial roll. From 1987 to 1989, however, rapidly rising market increases are translated sooner to the annual roll. On the other hand, in times of declining values, the biennial roll lags behind annual roll changes. The three-year average roll is much flatter, dampening market increases but lagging behind increases. This will be discussed further in chapter 5.

It has been estimated that a return to an annual roll would require a 20% increase in the budget of the British Columbia Assessment Authority.

### 3.1.7 The Guaranteed Roll

One of the recommendations of the *Financing Local Government Study* was to establish a guaranteed assessment roll to protect municipalities against large declines in roll values and possible tax refunds that could result from assessment appeals. The concept was developed to address situations such as that in Burnaby and Port Moody where the *Chevron* decision placed a substantial portion of the industrial tax base in jeopardy. A guaranteed roll would be financed by an additional levy, and would be drawn upon by municipalities forced to make large tax refunds as the result of assessment appeals.

## 3.2 Tax Stability: Variations to the Property Tax

The *Financing Local Government Study* and submissions to the Property Tax Forum recommended various changes to the property tax system.

### 3.2.1 Flat Taxes: An Alternative

**Flat taxes include parcel and frontage; these taxes do not vary with the value of the property.**

Flat taxes, as opposed to the current property value tax, are invariant with respect to value. The *Financing Local Government Study* made a strong recommendation for a flat tax option. As noted in chapter 2, this new (residential) tax instrument was incorporated into the *Assessment and Property Tax Reform Act, 1990* and is available to municipalities beginning in the 1990 tax year. Only five municipalities, Dawson Creek, Fort St. John, Kimberley, Kitimat, and Trail, elected to use the flat tax option. The Ministry of Municipal Affairs, Recreation and Culture will be consulting with the UBCM about further refinements to the flat tax.

Frontage and parcel taxes are currently used to pay for hard services such as roads, street lighting, sidewalks and sewers. The Forum heard submissions for an expansion of these types of taxes.[20]

### 3.2.2 Tax Variation on Land and Improvements

**There are two opposing views on taxing land and improvements at**

The *Assessment and Property Tax Reform Act, 1990* introduced separate tax rates on residential land and improvements. Government believed that such

an instrument would allow municipalities to cushion the impact of rapidly escalating land value by allowing the levying of a lower rate on land.[21] It was expected that Lower Mainland municipalities would take advantage of this option, but none did. The District of Kitimat is the only municipality that chose this option for 1990.

**different rates; some believe low rates on land discourage redevelopment of neighbourhoods and give tax relief; others believe that taxing land heavily will discourage property speculation.**

The *Financing Local Government Study* itself made no recommendations on this issue. Mayor Baker recommended such instruments to the Property Tax Forum. Submissions to the Forum were divided between advocates of low rates on land — to discourage redevelopment and give relief from high taxes associated with high land values — and proponents of high tax rates on land to discourage speculation. It is difficult for government to reconcile these opposing views.

### 3.2.3 User Fees

**The Forum heard many submissions that advocated a greater use of user fees for municipal services. This issue will be examined in depth in a later paper.**

It has been suggested that one way of reducing the property tax burden is to finance more municipal services through user fees. At present, municipalities charge fees for a variety of services such as water supply, garbage collection and recreation. The Forum received many submissions on the desirability of expanded use of fees and charges for municipal services. A number of submissions were also received advocating user fees for education. Proponents noted that 70% of the households in the Province do not have children in the school system.

The *Financing Local Government Study* made a general recommendation for the provision of a wider range of revenue instruments to municipalities. As part of *New Directions*, later this year the ministry will be releasing a report on more alternatives in local government finance. The report, to be the fifth in the series, will include an examination of the role of user fees and charges in municipal finance.

## 3.3 Other Tax and Assessment Relief Measures

The *Financing Local Government Study* recommended other measures for property tax relief. Many of these recommendations were reiterated in submissions to the Property Tax Forum. The measures included:

replacement of statutory exemptions from property tax with direct grants;

elimination of the $10,000 exemption for business improvements (s. 398.1 of the *Municipal Act*);

requiring all properties to pay frontage and parcel taxes and user fees for specific services;

expansion of government grants in lieu to all Crown properties (e.g., universities and colleges);

increased property tax deferral programs.

These issues will be addressed in the other forthcoming papers in the *New Directions* series.

### 3.4 Changes to the System: Incremental or Radical

**Government has received a wide variety of opinions on property tax and assessment reform; some opinions conflict.**

It will be evident to readers of this report that government has received a wide variety of submissions on property tax and assessment reform through the *Financing Local Government Study*, and the Property Tax Forums, directly from individual taxpayers and taxing jurisdictions. Reviewing the various submissions only highlights the tremendous diversity and, sometimes, contradiction of opinion.

Many submissions supported the concept of taxation based on property value; on the other hand, certain groups have rejected property value taxation and have advocated a poll tax similar to the tax introduced in the United Kingdom. Some taxpayers support site value taxation of land (but not improvements) as a development tool; others prefer heavier taxation of improvements in order to restrict development. These two examples represent only a few of the instances where the options presented to government have been in direct conflict. In the face of conflicting opinions, government must make policy choices that are workable and acceptable in the context of our political, economic and social environment.

Chapter 1 reviewed the evolution of the British Columbia system of local government finance. The incremental development of our highly sophisticated system based on assessments at market value, variable tax rates and provincial revenue sharing took over 15 years. Even today, government is making further refinements and improvements, but in a studied and measured fashion. Experience has shown that policies introduced in an abrupt manner without consideration of the direct and indirect impacts lead to further problems and conflicts. The policy options reviewed in chapter 5 are those considered to be acceptable and workable in today's environment. They are reasoned responses to concerns. No one is well served by radical changes in tax policy.

## 4. THE ENVIRONMENT

### 4.1 Real Estate Trends in British Columbia

Recent concerns about assessment increases and the burden of taxes have tended to obscure the real factors that lie behind developments in the real estate market in British Columbia. The past two years have seen a large increase in housing prices in certain parts of the province. As was noted in chapter 1, however, this has not been a province-wide phenomenon; in some communities real estate values remained stable or have fallen.

**Housing prices have not risen consistently across the province; the "hot" real estate market has been localized.**

To get a better picture of the environment, an analysis was prepared of trends in housing prices based on the Royal Lepage survey of real estate markets in Canada.[22] A sample was drawn from five communities in British Columbia: Vancouver, West Vancouver, Surrey, Kamloops and Vernon. In each case, average prices for a 1,000 square foot bungalow (as indicative of a lower valued home) and a 2,000 square foot house (to represent the more expensive housing market) were tracked from the fall of 1985 to the fall of 1989.[23]

**Fig. 5**

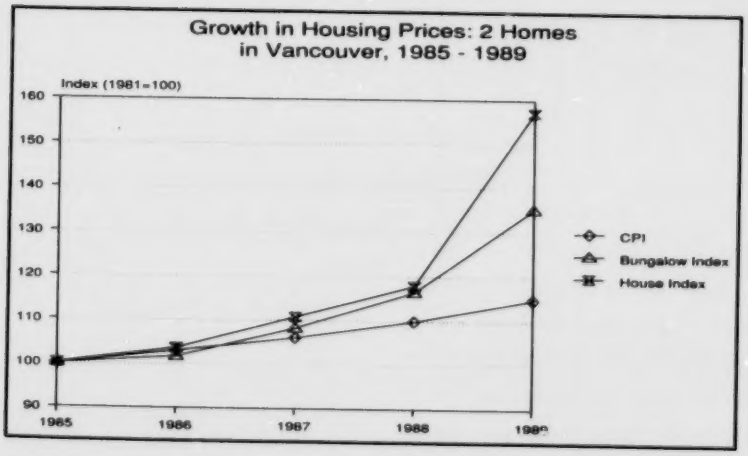
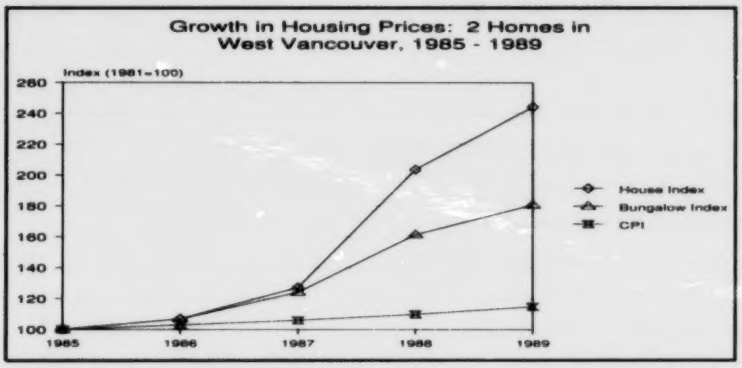



**Figure 5 shows the growth in prices of the Vancouver sample bungalow and house relative to the CPI.**

From figure 5, it can be seen that prices for both lower and higher valued properties in Vancouver grew at the same rates until 1987. From 1987 to 1989, however, the top end of the market jumped by approximately 65%.

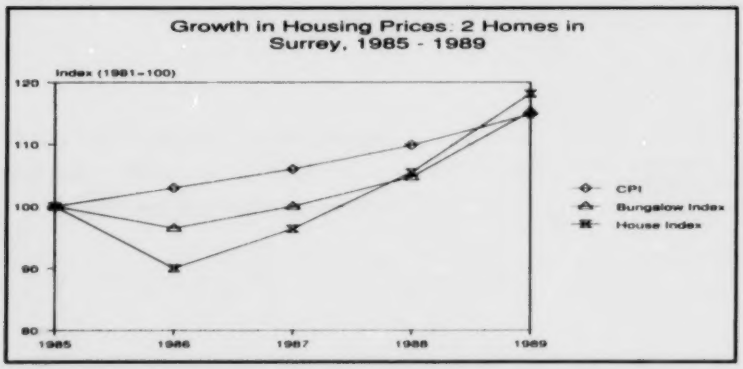
A similar but more extreme pattern was seen in the District of West Vancouver (figure 6) where the sample house price rose by 120% from 1987 to 1989.

**Fig. 6**




**The house price index in West Vancouver rose even more.**

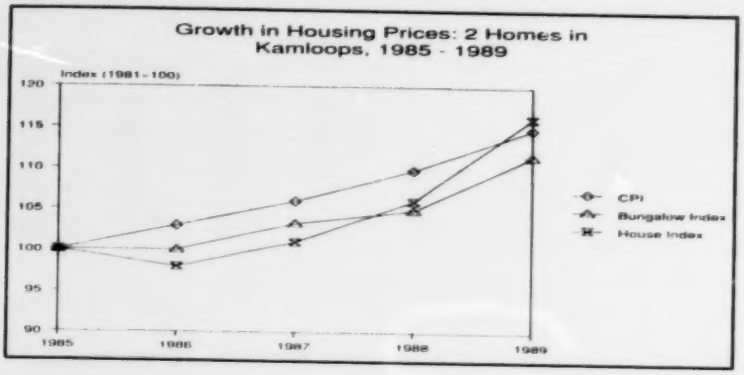
**Fig. 7**




**Prices in Surrey have not grown as rapidly as in Vancouver because Surrey has added considerably to housing supply**

Figure 7 shows the sample housing prices in the District of Surrey. The lower valued bungalow in Surrey rose by only 20% from 1985 to 1988 whereas the house rose by 30%. The most rapid growth in the lower end of the market occurred from 1988 to 1989. One factor in constraining price increases in Surrey is the influence of housing supply. Over the years in question, Surrey accounted for 36.8% of new single family dwellings in the Greater Vancouver Regional District.

**Fig. 8**



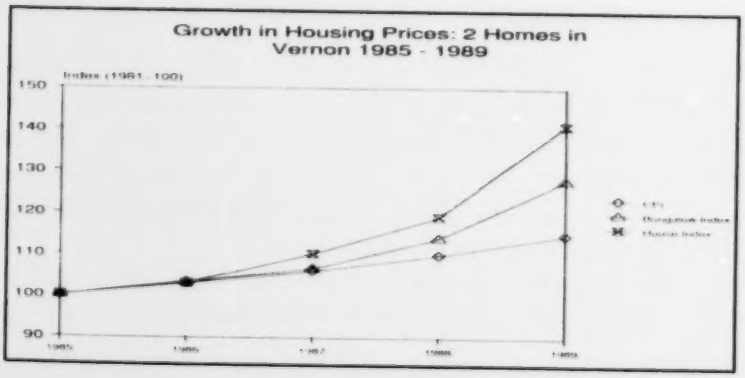

**Kamloops prices rose by much less than prices on the Lower Mainland.**

In the south central city of Kamloops, housing prices rose much more slowly than on the Lower Mainland. Figure 8 shows that in real terms, prices of the bungalow were actually declining until mid-1987. Even at the upper end, 1989 prices were only 30% above 1985.

In Vernon (figure 9) prices rose only gradually until 1988 with the more expensive property showing a slightly more rapid increase from 1988 to 1989.

The analysis shows that despite recent public expressions of concern, rising property values are not a province-wide occurrence. To the extent one can generalize, in all examples, the higher valued house increased more over the 1985-1989 period than the lower valued bungalow, but **the extreme increases were limited to particular areas in the Lower Mainland.**

**Fig. 9**



### 4.2 Factors in the Current Demand for Housing

**Rapid increases in housing prices have been attributed to speculation, in-migration and foreign investment.**

The rapid increases in housing prices in Vancouver and certain other areas have been attributed to many factors including off-shore investment, "greedy speculators" and migration from other parts of Canada and foreign countries. Municipalities have been faulted for allowing the "destruction of neighbourhoods" and all levels of government criticized for failing to provide "affordable housing." Many commentators have raised concerns that first-time homebuyers (the under 35s) are being squeezed out of the market and will never own a home. As a result, different levels of government have been asked to implement various policy measures extending to municipal controls on demolition of housing, taxing "land speculation" and restricting or prohibiting foreign ownership.

#### 4.2.1 Aging of the Population

**A report from the Laurier Institute concluded that demographics, and especially the aging of the population, is driving housing demand.**

A recent report of the Laurier Institute on factors in the demand for housing in Vancouver, *Population and Housing in Metropolitan Vancouver: Changing Patterns of Demographics and Demand*,[24] refutes the notion that there is any particular group to blame for the situation in the housing market. The report analyzed trends in natural population growth, migration, household headship rates and the age structure of the population, and their relationship to the demand for housing from 1951 to 1986. The authors concluded that regardless of the underlying assumptions about levels of migration or household headship, it was the demographic process of aging of the post-war baby boom into the 35-44 age group (1986 to 1996) and then into the 45-54 age group (1991 to 2006) that would determine the characteristics of changes in housing demand.[25] These same age patterns have resulted in the crowding out rather than pricing out of the first time buyers. "Thus the role of the first time buyer may be diminishing because there are [and will continue to be] both absolutely and relatively fewer of them."[26]

**Fig. 10**

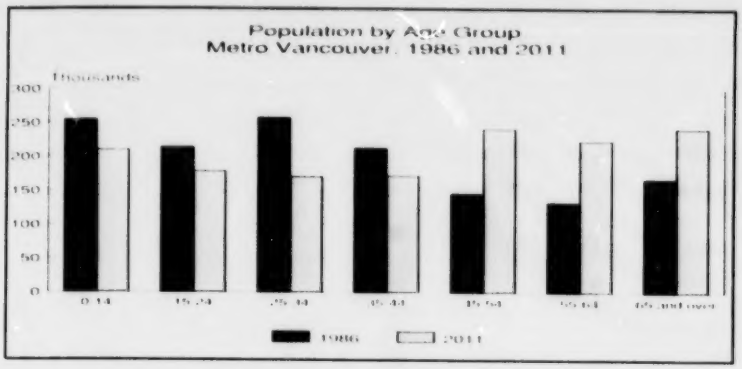



**Figure 10 shows the changing age profile of Vancouver's population from 1986 to 2011.**

Figure 10 shows the age cohorts for Vancouver for 1986 and estimates for 2011 assuming no migration. The 25-34 age group (first time buyers) declines by 33.7% over the period whereas the 45-54 age group shows a 66% increase.[27]

### 4.2.2 Demographics, Wealth and Home Ownership

**A recent study of the implications of an aging population notes that household wealth is becoming increasingly concentrated in the older age groups.**

The impact of the changing age structure has implications far beyond the decline in the number of first time buyers. It is increasingly evident that household wealth will become even more concentrated in the older age groups. A 1989 study by Clarkson Gordon/Woods Gordon referred to wealth inequality and the generation gap. Persons between 45-60 years of age, the pre-baby -boomers, bought their first houses during periods of low interest rates and fixed long-term mortgages. This group has seen a rapid rise in their equity in housing with prices escalated by the demands of the large early boomers group following. The report also noted that "nearly 80% of households headed by someone 65 and over own their own home; 90% of these homes are mortgage-free."[28]

**The early baby boomers have added to income and wealth with the growth in dual-income households.**

The early boomers, those born between 1946 and 1956, were the first generation to benefit from the increased participation of women in the labour force. Their main gains in standard of living have been through the two-income household; families with two income earners have average incomes 43% higher than single income families.

**The housing crisis of the late-boomers -- squeezed out of the market by**

in some communities, is the late- and post-boomer. Inasmuch as the demographics of demand have driven housing prices up sufficiently to place home ownership beyond the reach of this group, it would appear that the more resilient solutions may lie on the supply side -- solutions that include changes in land use and transportation patterns, increased density and new development. Housing policy is beyond the subject matter of this paper but the controversies surrounding it are recognized.

**earlier generations -- must be addressed from the supply side.**

### 4.3 Trends in Housing Values and Property Taxes

Much attention has been directed at trends in housing values rather than trends in taxes. This in part results from the assumption that an increase in value is automatically translated into an increase in taxes. This is of course a fallacy because municipalities can and do adjust tax rates downward to balance value increases. It is only when values of some individual houses increase substantially more than the average — as was seen in Vancouver and a few other areas — that a reduced tax rate is insufficient to compensate; taxes on these particular properties will rise. The figures on the next page show housing values and total net property taxes for the sample bungalow and house in the five sample communities discussed above. It should be noted that the values used are real estate selling prices not roll values. To simulate the roll, the values were lagged one year.

From the figures, it can be seen that property taxes paid on the lower valued bungalows have not risen substantially despite increases in value. In part, the gradual increase is due to the dampening effect of the Home Owner Grant that is worth more to lower valued properties. In contrast, the increase in taxes from 1988 to 1989 on the executive homes in Vancouver and West Vancouver must be attributed to value increases because the 1989 tax rate in both municipalities was lower than the 1988 rate. In Kamloops and Vernon, where increases in value have not been of the same magnitude as the Lower Mainland, the increase from 1988 to 1989 can be partly attributed to a higher municipal tax rate.

**Tax rates fell in the three Lower Mainland municipalities from 1988 to 1989 but not by enough to compensate for extreme value increases for executive homes in Vancouver and on the North Shore.**

In all examples, the main tax impact of rising values has been at the upper end of the housing market. This tax incidence has particular implications for policy development. The implications for policy options suitable for this changing environment will be discussed in chapter 5.

**Fig. 11-1**

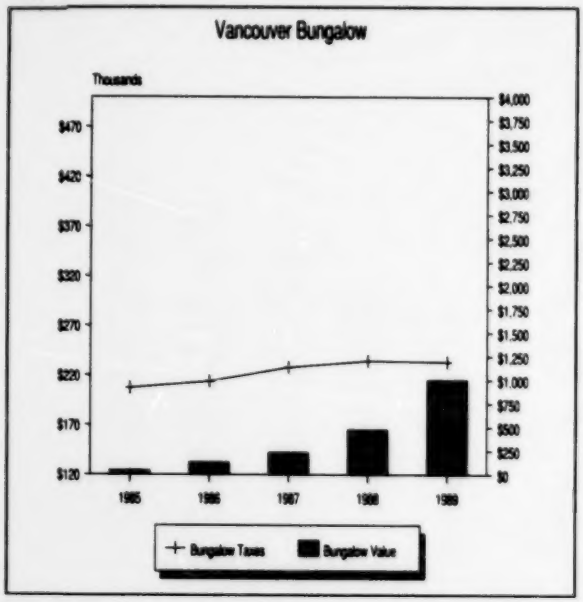



**Fig. 11-2**

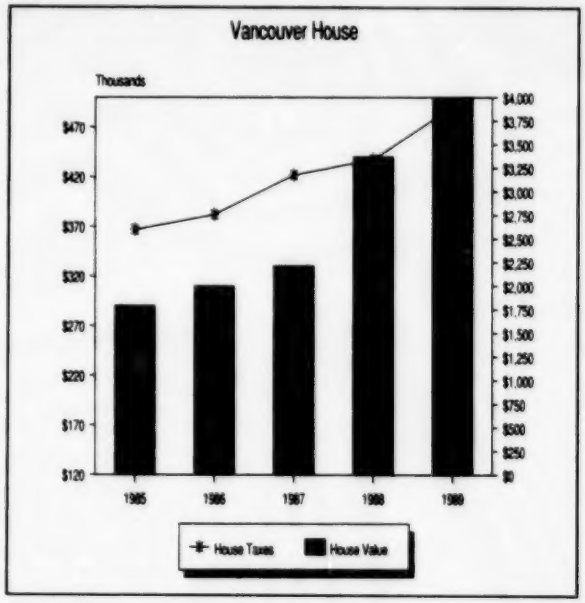



**Fig. 11-3**

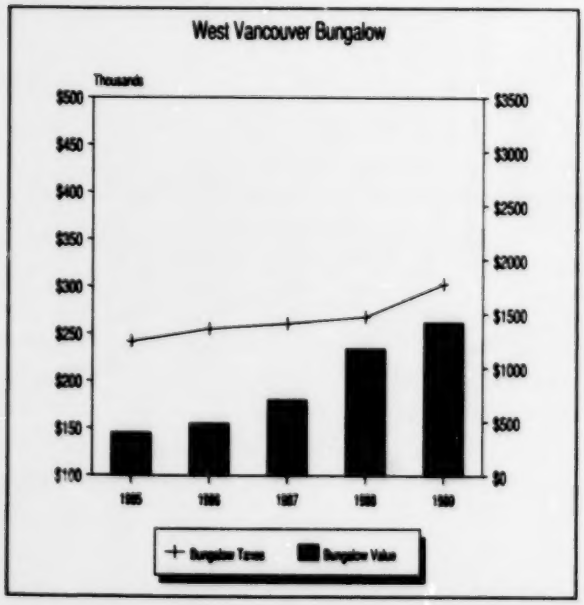



**Fig. 11-4**

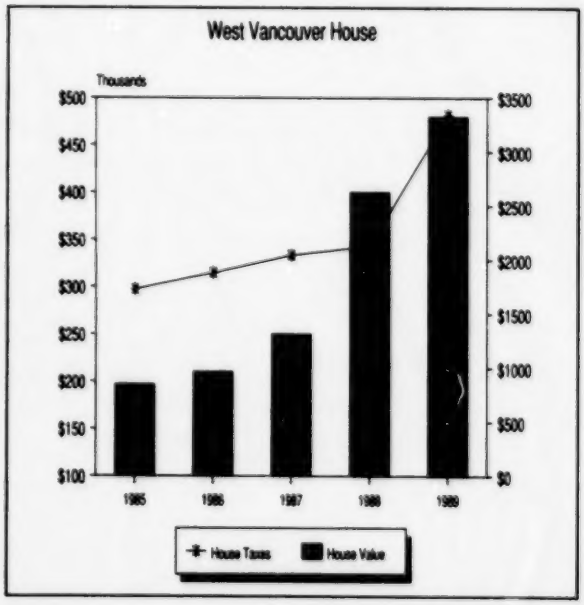


**Fig. 11-5**

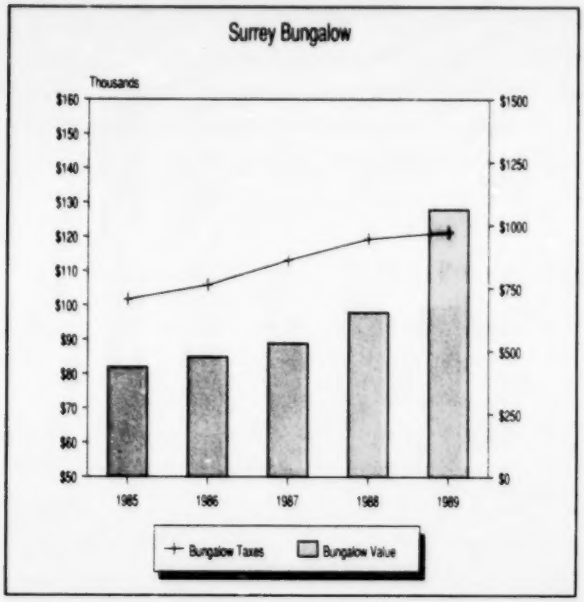



**Fig. 11-6**

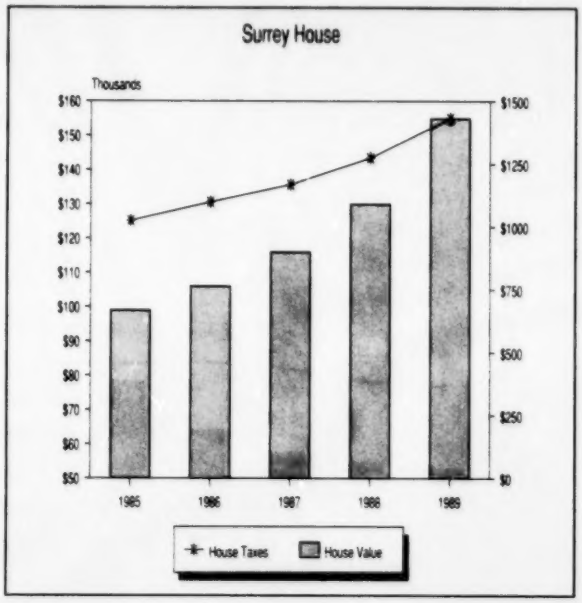



**Fig. 11-7**

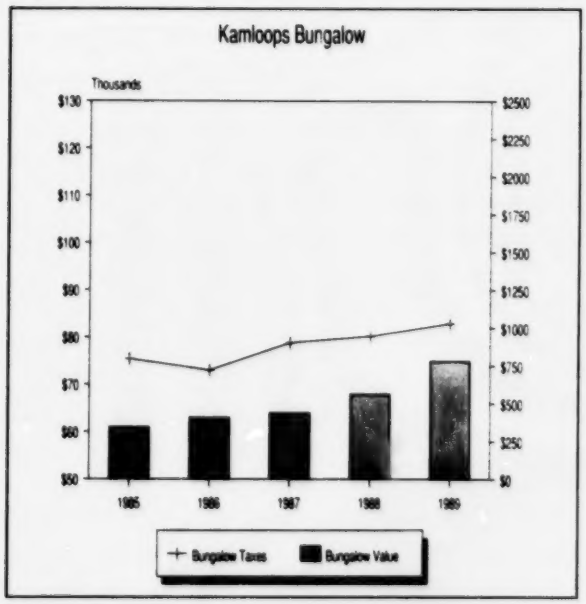



**Fig. 11-8**

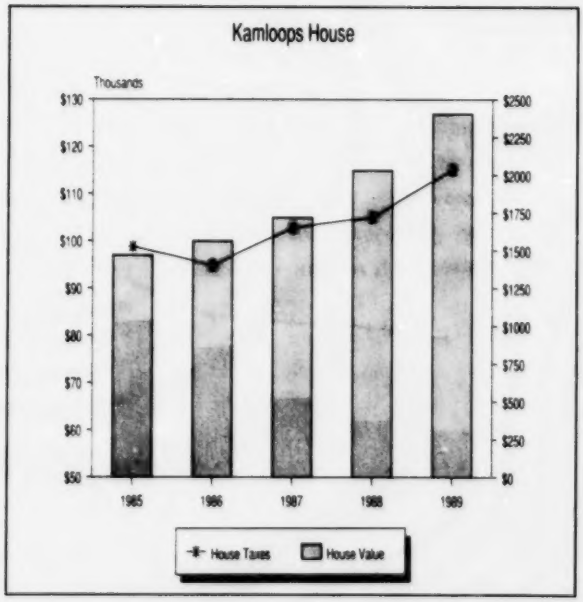


**Fig. 11.9**

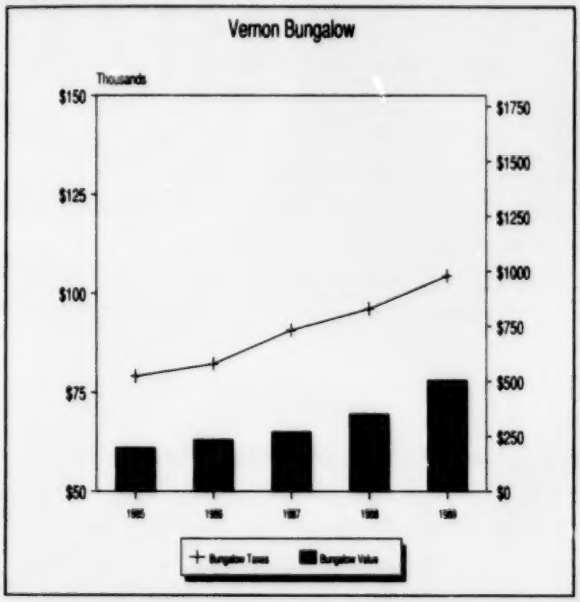
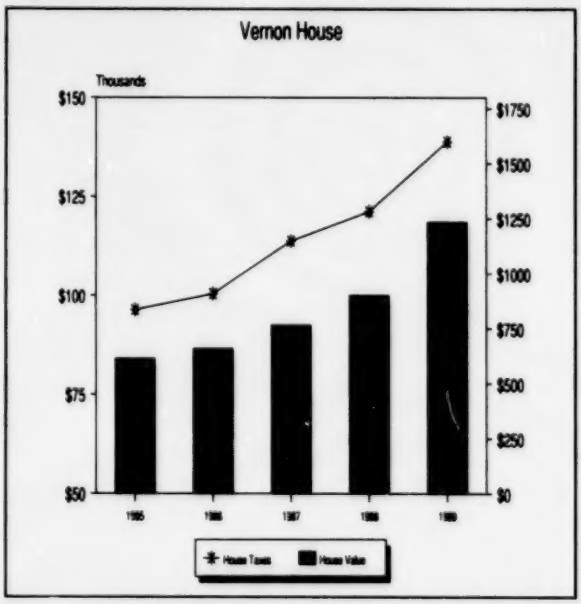



**Fig. 11.10**




## 4.4 Conclusions

This chapter has attempted to place recent developments in the housing market in perspective. Rapid increases in prices have been driven by buoyant economic conditions and increased demand. Demand has been fuelled to a large extent by the age structure of the population. This dimension to demand cannot be controlled by tax policy; adaptations will have to be in the form of new housing supply.

Even under the extreme conditions seen in 1989, property taxes did not rise as rapidly as housing values in most cases. Increases in taxes were cushioned by the policy initiatives introduced by government in 1990 and discussed in chapter 2. Chapter 5 therefore looks at incremental policies that could be implemented in the future to promote further stability and certainty during times of shock to the system.

# 5. ANALYSIS AND CONCLUSIONS

## 5.1 The Principles of an Ideal Tax System

The principles of an ideal property tax system are: clarity, stability, predictability, fairness, equity (both vertical and horizontal), neutrality, accountability, and ease of administration. All policy instruments both current and proposed should be measured against these principles. In 1990, the Province instituted various policies to bring stability and equity to the property tax system and to relieve the tax burden.

### 5.1.1 The Tax Impact of the Supplemental Home Owner Grant

The Supplemental Home Owner Grant program was designed to reduce the tax burden on homes of over average value that had experienced substantial property tax increases. The program will bring $50 million in tax relief to homeowners in 1990; in 1991, the supplementary grants will be worth more than $100 million. It has been estimated that taxes will be reduced on over 50% of properties in some Lower Mainland school districts and on a substantial proportion of properties elsewhere.

Further property tax relief was provided through a $450 million increase in provincial funding for education from other revenue sources. In the absence of this shift of the tax burden and the introduction of the supplementary grant, residential school property taxes would likely have risen by over 15% in 1990/91.

### 5.1.2 Other Tax Impacts

The tax shifts caused by differing rates and directions of change in assessed values have been constrained by two measures introduced in the *Assessment and Property Tax Reform Act, 1990*, split rates on residential land and improvements and the flat tax on residential property. It is too early for the Ministry of Municipal Affairs, Recreation and Culture to evaluate the tax impacts of these new policies. As discussed in chapter 2, by levying a lower tax rate on residential land, municipalities should be able to cushion the tax impact of rapidly rising land values. To the ministry's knowledge,

**Split rates on residential land and improvements were designed to address differential rates of change in assessed values.**

however, only one municipality elected to use this option for the 1990 tax year.

The flat tax on residential property was designed to provide municipalities with a flexible, optional tax instrument that could be used to stabilize taxes during periods of rapid change in property values. Among its major proponents were certain smaller municipalities where assessed values fell dramatically. Property owners whose property values fell less than the average were faced with disproportionate tax increases. The converse of the Lower Mainland situation produced parallel tax shifts. Five municipalities chose the flat tax option for 1990. This instrument was used to raise varying amounts of revenue from residential property, from a high of 71% to a low of 12%.

The ministry is concerned about the long-run tax shifts that could result from the permanent imposition of a flat tax. Continued reliance on this type of tax, without regard for market conditions, would place a larger burden on lower valued properties. This could detract from the vertical equity achieved by a property value tax.

Figure 12 shows the effect of a flat tax as compared to the general municipal property value tax on seven sample properties in the City of Vernon in 1989. The assessed values of these properties range from $27,300 to $86,750. In 1989, all seven properties were taxed for general municipal purposes at a rate of $6.94 per $1,000. This rate raises a total sample revenue of $2,747. To raise the same revenue, a flat tax of $392 per property must be levied.

From figure 12 on the next page, one can see how the flat tax results in an effective tax rate of $14.37 per $1,000 on the lowest valued property, more than twice the 1989 rate. In contrast, the rate on the most expensive property is only $4.52 per $1,000.

**Fig. 12**

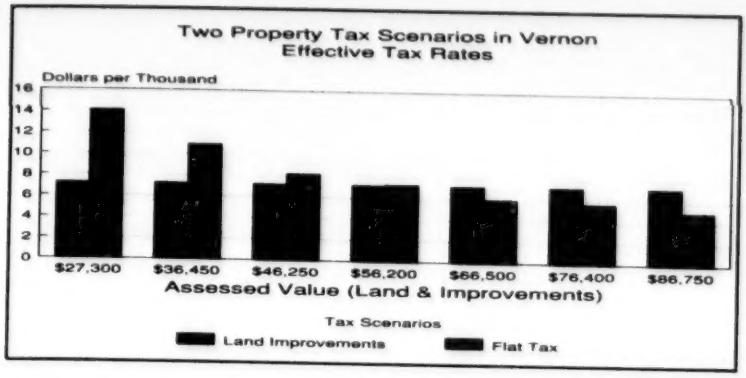



**Figure 12 shows a comparison of the effective tax rates borne by sample properties in the City of Vernon under the current property value system and a flat tax scheme. Under the flat tax system, the effective tax rate is higher on lower valued properties.**

In practice, the Home Owner Grant, which is worth more to lower valued properties, will cushion this regressivity. Further protection is contained in the legislative provisions that require the tax to be levied in conjunction with the property value tax. The ministry will monitor the tax shifts produced by the flat tax and may make recommendations respecting its use in the overall tax mix. The advantage of the flat tax as an option, however, is that it can be used as an effective short-run tool to manage severe shifts in values. Optional use in times of severe stress will ensure tax stability and certainty without introducing permanent tax shifting.

### 5.1.3 Stability and Certainty

British Columbia has had a market value assessment system since 1978. Although assessed values have grown since then (early increases resulted from the removal of the assessment freeze), it was not until the 1989 assessment and tax rolls were produced that there was much controversy over value increases and tax shifts. Recent changes in the real estate market have compromised the stability and certainty of the property tax system for some taxpayers; decisions of assessment appeal bodies have frustrated the ability of taxing authorities to accurately forecast the tax base.

**Large increases in tax bills driven by value changes threaten stability and certainty for individual taxpayers.**

This review has indicated that, with few exceptions, recent large increases in property values and taxes have been localized in particular areas of the province and have been mostly confined to higher valued property. Large jumps in property values conflict with the taxpayer's expectation that values will remain relatively stable from year-to-year in the absence of any change in use or physical condition of the property. Future polices must be designed that create greater stability for individuals in times of rapidly

escalating values, but at the same time recognize the cyclical nature of the real estate market.

**Fig. 13**

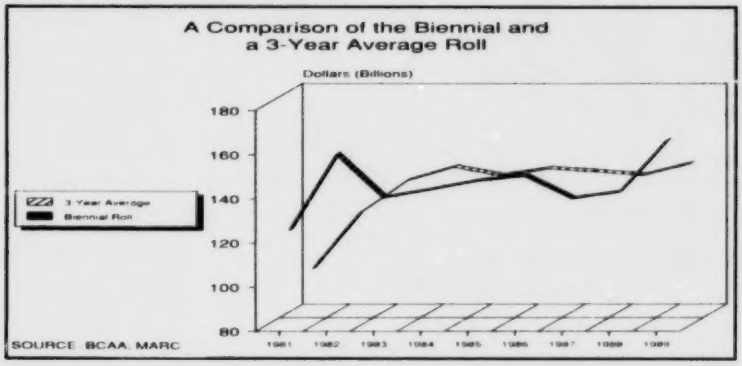



**Figure 13 shows the biennial roll and a 3-year moving average roll. Averaging keeps values high in falling markets.**

Assessment averaging has been recommended as the solution for instability because rapid increases in values would be smoothed over the averaging period.[29] Averaging, however, produces values that do not reflect current conditions. From figure 13, it can be seen that although averaging smooths the early increases, the averaged roll remains higher from 1982 (when property values plunged) to 1987 because the averaged values carry over the historic high levels.

From the point of view of taxing authorities, stability and certainty in the roll are necessary for prudent financial and tax management. Instability and uncertainty have their most noticeable effects in municipalities with one or more large industrial taxpayers. The financial consequences of the *Chevron* decision for Burnaby and Port Moody were discussed in chapter 2. Returning stability and certainty to the industrial roll has been a matter for 1990 legislation -- redefining improvements will save both taxpayers and taxing authorities the cost and uncertainty of protracted litigation.

**Stability and certainty of the industrial roll is of major importance to taxing authorities and major industry.**

## 5.2 Options for Property Tax Relief

### 5.2.1 Policy Principles

As noted above, the major impact of changes in residential property values has been in the upper end of the housing market. Consequently, the problem has not been one of regressivity, that is, a shifting of the tax burden to lower valued properties and lower income groups, but rather one of instability and uncertainty. Any future policy measures must therefore be flexible enough to deal with changes in property values (up or down), ensure stability and certainty for both taxpayers and taxing authorities, and minimize long-run, permanent shifting of the tax burden to lower valued properties.

### 5.2.2 Further Residential Relief

**The major problem with residential taxes has been instability and uncertainty, rather than regressivity.**

The new policy options adopted in 1990 -- the Supplemental Home Owner Grant, increased educational funding, the flat tax, split tax rates -- reduced the property tax burden on high valued residential property substantially. Government wishes to ensure other instruments are available for residential taxpayers to cope with rapid change in the future. Further relief should be in a form that will allow municipalities the greatest flexibility in adapting to local circumstances and changing market conditions.

Many options for residential property tax reform have been advanced by different groups. Some options have been contradictory. It is evident that the choices government makes will not satisfy every interest. The options considered in this paper are those that are believed to be workable in the current environment and will be acceptable to most taxpayers and taxing jurisdictions.

Option (a) -- a general municipal tax averaging provision

**A general tax averaging provision would allow taxpayers to spread taxes over a three-year cycle.**

Municipalities would be given the authority to establish mechanisms for general municipal tax averaging. Such a scheme could be automatic (i.e., built into the tax system) or upon application by the taxpayer. Municipalities would be free to set eligibility requirements if they so wished

although this measure is aimed at a general application. Averaging would take place over a set time period (e.g., three years). Taxpayers would be required to discharge their complete tax liability at the end of the averaging cycle. This provision is designed to be a general measure available to taxpayers who wish to spread tax payments over a number of years because of unforeseen increases, or changes in personal circumstances or financial situation. This measure does not provide a cap on tax payments; the total liability must be repaid over the cycle or earlier if the residence is sold . Such a scheme would provide increased stability and certainty without creating inequitable tax shifts to other properties. Tax averaging could be made available to all homeowners without qualification.

Tax averaging would increase tax stability and certainty; it would not lead to long-run, inequitable tax shifting. A major drawback is administrative design and integration of the scheme into municipal collection systems. Tax averaging could also have implications for the fiscal position of municipalities. A short-fall in expected municipal revenues could require more short-term borrowing, which is limited under the *Municipal Act*, and increases interest costs. The impact of such a scheme on municipal finances would depend to a large extent on participation (requiring taxpayers to apply for tax averaging would limit participation) and the range of the year-over-year change.

Option (b) -- expansion of the land tax deferment program

**Tax deferment is now available to seniors, the widowed and handicapped. This program is financed by the Province.**

The Ministry of Finance and Corporate Relations now administers the Land Tax Deferment Program. This program allows senior citizens, the widowed and handicapped to defer property taxes until the property is sold or the death of the owner. Interest on the deferred taxes is charged at a low rate set by the Minister of Finance and Corporate Relations. Participation in this program is low despite the generous terms. The *Report of the Property Tax Forum* noted that many senior citizens, even those in need, did not wish to encumber their heirs with debts on inherited property.[41]

The Land Tax Deferment Program could be extended to include long-term residents who have lived in the same home for more than 10 years. This program would assist persons who fear that large luxury redevelopments in

some neighbourhoods will drive long-term residents out of their more modest older homes. The amount deferred would equal the proportion of the tax attributable to the increase in assessed values and would be payable when the property was sold or upon death.

Such a program would assist long-term residents who are not eligible for complete deferment under the Land Tax Deferment Program because of age or marital status. It would provide relief to older, long-term residents living in neighbourhoods such as Kerrisdale. The measure does not provide complete deferment. Only that portion of taxes attributable to rapidly increasing values caused by development pressures would be deferred. This program would not replace the long-term residents provision of s. 26(4) of the *Assessment Act*.

**Extension of partial tax deferment to persons who have lived in the same home for more than 10 years would assist residents of neighbourhoods under pressure from development (e.g., Kerrisdale).**

This option would increase stability and certainty; it would not result in long-run tax shifts. The program would provide relief to a limited number of persons meeting the criteria for assistance. Requiring application could reduce participation.

Option (c) -- a municipal tax capping provision

Municipalities could be given the power to cap taxes for residential taxpayers whose taxes have increased over a certain threshold. The scheme would be similar to the program introduced in the City of Vancouver for commercial taxpayers.

Such a provision would improve certainty and stability for taxpayers whose taxes are rising faster than the average. Tax capping, however, shifts the tax burden to properties whose values are rising more slowly. In the present situation, the most rapid growth has been at the upper end of the market; thus, capping would shift the burden to lower valued properties. On this basis, capping is a less preferred option as it has the potential for conflicting with the principle of vertical equity.

**Tax capping would provide relief to those whose taxes are rising faster than average, but in a rising market it would produce tax shifting to slower growing and lower valued properties.**

### 5.2.3 Social Welfare Considerations: Circuit Breakers

The *Leckie* Commission and the Property Tax Forum heard several submissions about the failure of the property tax system to take into account ability to pay. Submissions referred to the particular situation of senior citizens who are asset rich in that they own their homes outright but are income poor. On the other hand, as noted earlier in this chapter, the late- and post- baby boomers born after 1956 are having difficulty finding affordable housing, have seen little or no increase in real incomes and no opportunity for wealth accumulation.[31] As the *Leckie* noted, these younger homeowners do not have the protection afforded by the additional Home Owner Grant and tax deferment.[32]

**Future relief may have to be linked to income.**

As the average age of the population continues to increase and persons in the 45-60 age group enter retirement, it would appear that further property tax relief, if required, may have to be linked more directly to income levels rather than using age as a proxy for income. Property tax circuit breakers link property tax burdens to income levels. Their use is common in the many U.S. states. In British Columbia, the closest equivalent is the Renter's Tax Reduction introduced in the 1989 Budget. Future policy makers may wish to consider whether any such programs in British Columbia should lie within the realm of property tax policy, or are more properly within the purview of general social policy.

### 5.2.4 Commercial Property Tax Relief

Chapter 1 noted that the City of Vancouver capped commercial property taxes in 1989 in order to provide small businesses with some relief from extreme tax increases. A similar measure was instituted for the 1990 tax year.

In our market economy, resources flow to where they can earn the highest rate of return. In the long-run, businesses that cannot cover their fixed costs including property taxes will be displaced by others. The *Leckie* Commission recognized this dilemma, recommended no general capping for commercial taxpayers and stated that the City of Vancouver should have the authority to establish such a mechanism.[33] Designing tax relief measures

for commercial taxpayers must balance the desire to improve stability and certainty against the degree to which government should intervene with market forces.

Many of the problems associated with this issue arise from the nature of particular lease agreements that pass property tax costs through the owner to the lessee. If the property is underdeveloped, the tax burden on the commercial lessee will be significantly greater than in a recently redeveloped property, and will reflect the cost of the owner holding property for redevelopment rather than services to the lessee.

Option (a) -- a commercial tax averaging provision

**Commercial taxpayers would be allowed to average taxes over a period of years.**

Municipalities could be given the authority to establish a general tax averaging provision for commercial (Class 6) properties. Municipalities would set eligibility requirements. The total tax liability would have to be paid over the term of the averaging cycle. The commercial averaging scheme could be designed with the same parameters as the scheme for residential taxpayers and would share the same advantages and disadvantages.

Option (b) -- tax variation on commercial land and improvements

The *Assessment and Property Tax Reform Act, 1990* empowered municipalities to set separate tax rates on residential land and improvements. It was felt that this policy would cushion the tax impact of rapidly rising land values.

In Vancouver, commercial land values have risen more than the value of improvements in areas undergoing redevelopment where the existing buildings are not at highest and best use.[34] This has resulted in large tax increases for those commercial tenants who were paying property taxes under the terms of "triple net" leases. Another option to assist these taxpayers is to extend the power to set different tax rates on land and improvements to commercial property.

Municipalities could be given the option to impose different tax rates on commercial (Class 6) land and improvements. This provision would be similar to the one adopted for residential property in the *Assessment and Property Tax Reform Act, 1990.*

**Separate tax rates on commercial land and improvements (Class 6) would give relief to tenants in developing areas of Vancouver that have seen huge increases in land values; however, separate rates would involve shifting within the class.**

Assuming municipalities imposed a lower rate on land, such a program could provide short-term relief to commercial tenants in areas where land values have escalated rapidly. Municipalities, however, must set rates for a whole property class in the municipality. Setting a lower tax rate on land would shift the burden to commercial improvements mostly in established areas. Theory would also dictate that the lower rate would be capitalized into land values which would rise as a consequence. Because of this intra-class shifting and the implications this policy has for commercial development, further analysis, including a tax impact study, is required.

**Tax impact studies are required in order to evaluate this proposal.**

Option (c) -- municipal commercial tax capping

All municipalities could be given the general power to cap commercial property taxes over a certain threshold. This provision would extend the powers given to the City of Vancouver in 1989 and 1990 to other municipalities. Capping of commercial taxes has the same disadvantages as capping residential taxes as discussed above.

**Tax capping would provide relief to those whose taxes are rising faster than average, but in a rising market it would produce tax shifting to slower growing and lower valued properties.**

### 5.3 Options for Assessment Stability

In chapter 3, changing the cycle and method of assessment were proposed to provide relief from large tax increases attributed to extreme value increases. Proposals included averaging, phasing, capping of assessments, and a return to the annual roll.

This study has reviewed the factors underlying recent tax increases and the resultant shifting of the tax burden. From the analysis, it was evident that the "property tax crisis" of 1988/89 devolved from rapid changes in the real

estate market that were fuelled by a buoyant economy. The nature of this market suggests that such peaks will be followed in a natural cycle by falling values. Given these swings in the market, any future changes to assessment policy options must be flexible enough to deal with both ups and downs in property values. Policies must address stability and certainty, and minimize any shifting of the tax burden to lower valued properties or lower income taxpayers.

Analysis of the various options suggests that radical changes to the assessment system in British Columbia are not necessary to deal with short-term instability and uncertainty. Adequate adjustment mechanisms can be implemented through the tax system. If future developments dictate further changes to the mechanics of the assessment cycle, the following options are considered viable.

**Radical changes to the assessment system are not necessary to deal with short-term swings.**

Option (a) -- reintroduction of the annual roll

The annual assessment roll could be reintroduced provided that the British Columbia Assessment Authority receives the necessary increase in budget and resources.

Chapter 3 noted the advantages of reintroducing the annual roll as recommended by the *Financing Local Government Study*, and many submissions to the Forum. In addition, the British Columbia Assessment Authority in its report on assessment averaging expressed a preference for the annual roll rather than assessment averaging if further assessment stabilization mechanisms were deemed necessary. The disadvantage of the annual roll is its estimated additional cost of $5 million, the anticipated increase in appeal activity and the loss of an off-year for the Authority.

**The annual roll would ensure increased stability and equity; however, there are costs attached to its reintroduction.**

Option (b) -- assessment averaging

The *Financing Local Government Study* recommended three-year assessment averaging combined with a return to the annual roll. It further recommended that averaging be a municipal option.

Introducing assessment averaging as an option for municipalities would

introduce severe technical difficulties. School district and municipal boundaries do not coincide; therefore, averaging assessments for municipal purposes would require the production of two assessment rolls, one for the municipal taxes and a separate roll based on school district boundaries. This would be extremely expensive to implement, and confusing for the taxpayer. In its report on averaging, the British Columbia Assessment Authority concluded that the net result of averaging could be "the development of two parallel systems of assessment in British Columbia."[35]

Province-wide averaging would be a more viable option, less technically complex and less costly. The *Leckie* Commission concluded, however, that an assessment averaging mechanism was "totally and permanently interventionist". The British Columbia Assessment Authority found that an averaging scheme would raise myriad administrative and technical difficulties, be difficult for property owners to understand, shift the burden to lower valued properties and compromise the principles of an ideal property tax system.[36]

**Assessment averaging or phasing is a policy that would not address the problems of infrequent change. It would be expensive to implement, difficult to understand, and would radically alter the present system.**

Assessment averaging does not appear to be a promising policy for addressing the problems of infrequent change. Tax averaging, perhaps with a return to the annual roll, would be a more rational choice.

Option (c) -- phasing or capping

Assessment phasing or capping would introduce similar complexities into the system as averaging, and would also compromise the equity criterion.

Option (d) -- the guaranteed roll

The guaranteed roll is more properly a property tax relief measure; however, inasmuch as it involves the assessment roll, the option is discussed under the heading of assessment stability.

The concept of a guaranteed roll was studied by a special committee over the early summer. Although, the idea of "guaranteeing" roll values has much merit, the introduction of such a measure would require an increase in property tax levies at a time when jurisdictions are trying to limit tax

increases. In addition, the stability and certainty returned to the major industry roll through redefining improvements, and the protection afforded municipalities through the retroactive application of the definition in the *Assessment and Property Tax Reform Act (No. 2), 1990*, lessen the immediate need. Further review has also suggested an alternate option of using the Municipal Emergency Account, a new fund established under the Revenue Sharing Program. This option will be discussed in a later paper in the *New Directions* series.

### 5.4 In Conclusion

The tax relief measures introduced in 1990 have produced stability and certainty without compromising equity. Taxing jurisdictions have been given the tools to manage large but short-term swings in property values and taxes. These measures combined with new options for tax averaging and deferral put forward in this review, and possibly the annual assessment roll, could ensure British Columbia taxpayers and taxing authorities a property tax system consistent with the ideal principles of equity, neutrality, fairness, stability and certainty, accountability and predictability, and ease of administration. Other more difficult and more expensive options for stabilizing taxation and assessment have also been examined in this review. While the evidence does not point unambiguously to the need for radical measures such as assessment averaging, consultation over the next several months should make a conclusive determination of the preferred options.

## NOTES

1. City of Vancouver, *Report of the Municipal Taxation Review Commission* [the *Leckie* Commission] (March 1989).

2. The Commission must be using "circuit breaker" in the generic sense. Public finance economists define property tax circuit breakers as a form of property tax relief in which benefits depend on both income levels and tax payments. Circuit breakers are designed to reduce the assumed regressivity of the property tax, something that capping or freezing can actually exacerbate.

3. *Financing Local Government*, a report sponsored by the Ministry of Municipal Affairs, Recreation and Culture and the Union of British Columbia Municipalities (August 1989).

4. *Assessment Act: Proposal for Change*, a discussion paper prepared by the British Columbia Assessment Authority, the Ministry of Finance and Corporate Relations and the Ministry of Municipal Affairs, Recreation and Culture (July 1989).

5. *Report of the Property Tax Forum*, hearings before the Honourable Mel Couvelier, the Honourable Rita Johnston, UBCM President Marilyn Baker and Mr. Conrad Adams (December 1989).

6. The Continuing Legal Education Society of British Columbia, *Real Property Assessment Manual* (1990), pp. 2-4, 5.

7. *Commission of Inquiry on Property Assessment and Taxation* [the *McMath* Commission], Preliminary Report of the Commissioners (July 30, 1976).

8. The 1990 legislative changes were actually introduced in two bills: Bill 49, the *Assessment and Property Tax Reform Act, 1990*, and Bill 78, the *Assessment and Property Tax Reform Act (No. 2), 1990*. For the sake of simplicity, the discussion refers to the changes as if they had been introduced in a single bill.

9. *Leckie*, p. 44.

10. *Financing Local Government*, pp. 20-21.

11. *Report of the Property Tax Forum*, p. 14.

12. *Assessment Averaging*, a report prepared by the British Columbia Assessment Authority (March 1990), p. ii.

13. Reproduced from figures in *Assessment Averaging*, pp. 15-16.

14. *Assessment Averaging*, pp. 14-17.

15. *Assessment Averaging*, p. 41.

16. *Assessment Averaging*, p. 54.

17. *State and Local Tax Revolt: New Directions for the '80s*, Dean Tipps and Lee Webb, eds. (1980), chapter 5, "California's Tax Revolt.

18. The Maryland State Department of Assessments and Taxation was established at the same time as the British Columbia Assessment Authority although neither jurisdiction was aware of these parallel developments.

19. Maryland State Department of Assessments and Taxation, *Information Featuring Assessments* (1989).

20. The residential flat tax is levied on a parcel basis.

21. See p. 13.

22. *1990 Royal LePage Survey of Canadian House Prices*.

23. The "bungalow" in the example is defined as a detached, three-bedroom bungalow with 1 1/2 bathrooms and a one-car garage. The "house" is an executive detached two-storey, four-bedroom home with 2 1/2 bathrooms, a main floor family room, one fireplace, and an attached two-car garage. The house represents the lower end of the higher valued properties and should not be considered as a luxury home.

24. *Population and Housing in Metropolitan Vancouver: Changing Patterns of Demographics and Demand*, by David Baxter and Principal, Urban Pacific Financial Corporation (The Laurier Institute, 1989).

25. *Population and Housing*, p. 79.

26. *Population and Housing*, p. 67.

27. *Population and Housing*, p. 65.

28. *Tomorrow's Customers*, 22nd. ed. (1989), pp. 8-9.

29. If all properties increase (or decrease) in value at the same rate, averaging assessments has no effect on property taxes.

30. p. 21.

31. Statistics Canada reports households maintained by persons 55 years and over were the only households by age group to see an increase in real income from the 1981 to the 1986 Census.

32. *Leckie*, p. 49.

33. p. 41.

34. Tom Johnstone, "Social Impact of Using the Market Standard in an Area of Highly Fluctuating Market Values — Inter-jurisdictional Effects," paper presented at Policy Developments in the Property Tax, a conference sponsored by the Lincoln Institute of Land Policy and the International Association of Assessing Officers, Denver, Colorado, June 2, 1990, pp. 29-30. (Mr. Johnstone is the Assessment Commissioner and Chief Executive Officer of the British Columbia Assessment Authority.)

35. *Assessment Averaging*, p. 52.

36. *Leckie*, p. 44; *Assessment Averaging*, p. i.